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Bloomberg Businessweek



Lynn Tilton says she saves American jobs. Does she also defraud investors?

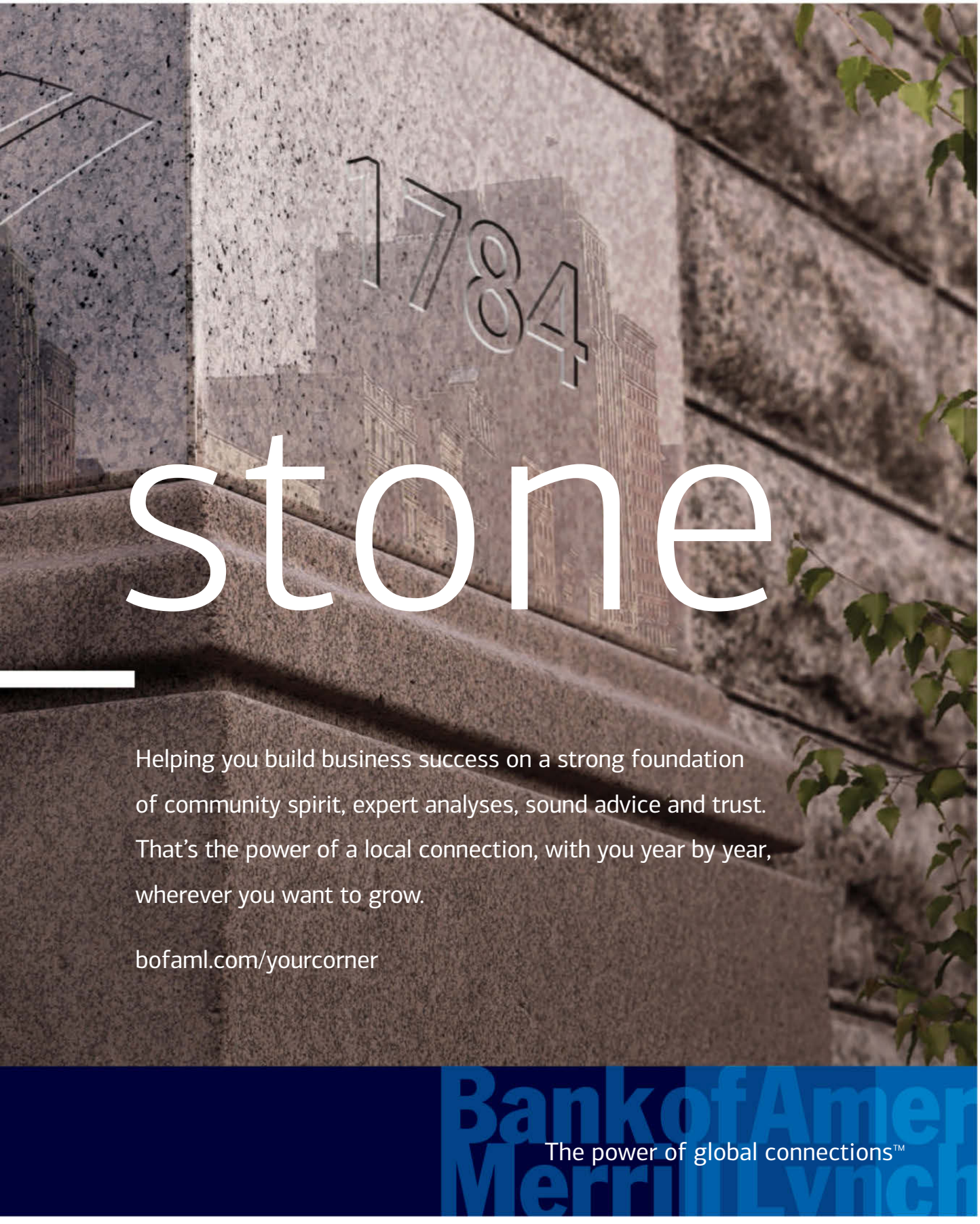
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#AllLynn



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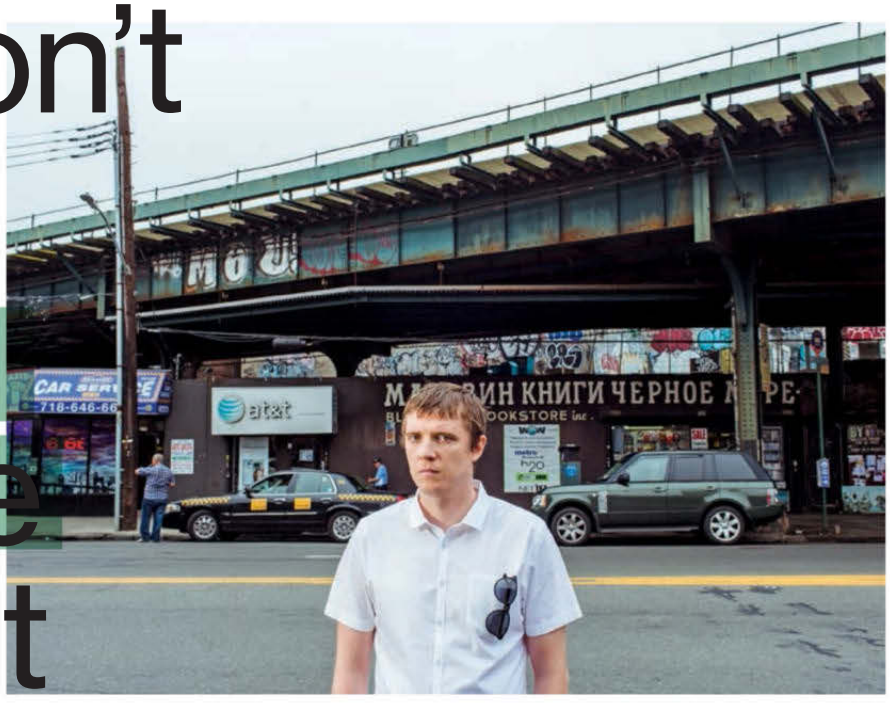
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PHOTOGRAPH BY BRYAN DERBALLA FOR BLOOMBERG BUSINESSWEEK

“In the early days, we had no choice but to hire rejects.... But we trained the hell out of them, and they became great”

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“I think part of the reason women do not get where they should be in male worlds is because they stop acting like women and try to be more like men”

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I’m now anti-Dilma, anti-Lula. I believed this government was for the poor”

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*Green tie alert

COVER PHOTOGRAPH BY SIMONE LUECK FOR BLOOMBERG BUSINESSWEEK

Cover Trail

How the cover gets made

❶ "The story is on Lynn Tilton, a businesswoman who's defending herself against accusations of fraud by the SEC."

"Did she agree to a shoot?"

"Yes."



❷ "I really don't see how this can be improved upon."

"Let's think about it."



❸ "This definitely cannot be improved upon."





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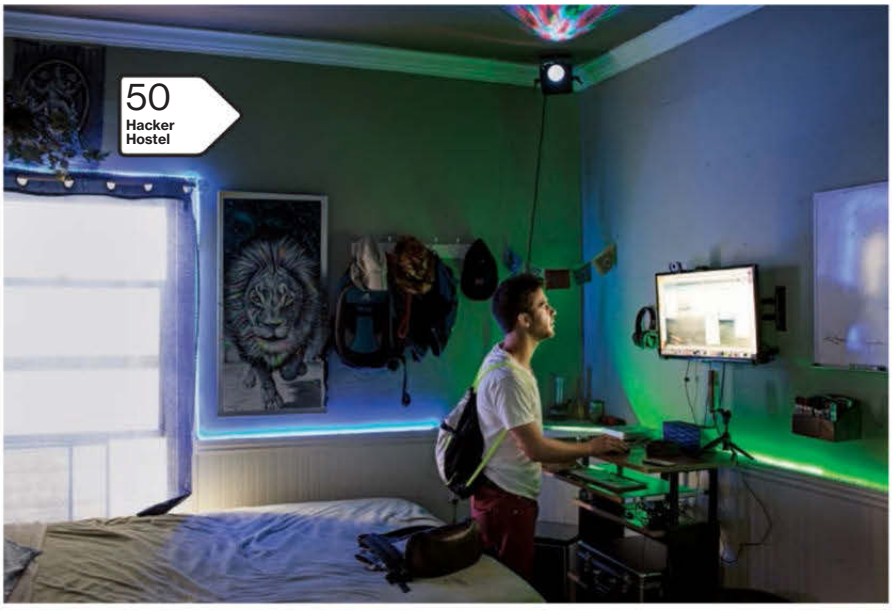
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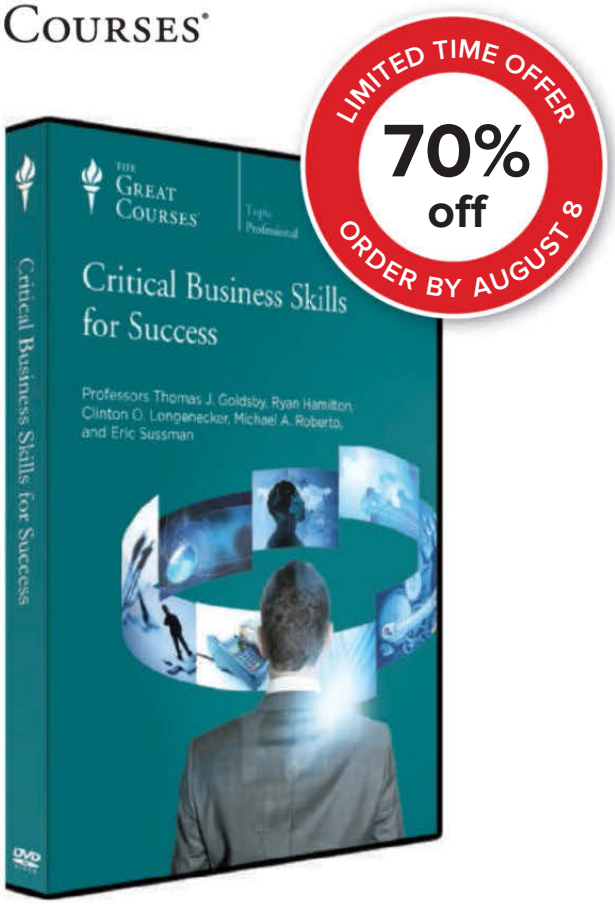
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Corrections & Clarifications
The David Lynch Foundation is based in New York, not on the campus of the Maharishi University of Management, as we reported in "Rand Paul Finds Fans on a Higher Plane" (Politics/Policy, July 6-July 12, 2015).

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By Azadeh Moaveni

The Iran nuclear agreement may unleash the country's mercantile instincts, which are undimmed by the regime's dark realities

Mobile phones in Tehran started beeping and buzzing well before Iran's nuclear agreement with the West was finalized. They carried an important sentiment that couldn't wait for the niggling details to be ironed out in the talks between Iran, on one side, and China, France, Germany, Russia, the U.K., and the U.S. on the other. "Congratulations, the agreement is almost signed! Come dine with us for less," read the text from a local pizzeria. Discounts and specials celebrating the coming end of the sanctions pinged around the capital.

In the offices of Takhfifan, Iran's answer to Groupon, staffers interrupted their weekly meeting every 10 minutes to refresh the news on their laptops. "We're all counting the seconds," said

Nazanin Daneshvar, the site's founder, hoping "that we'll get back to a better place after such a long, difficult time." Daneshvar's marketing platform is thriving: It boasts a million subscribers who grab daily deals on everything from concert tickets to swimming pool passes. An Iran reopened for global business could eventually bring in Western companies and investors, which might finally mean economic growth of a different scale. A normal scale.

Even normality—the most modest expectation—would be vastly different from the Tehran I last experienced in 2009, before that summer's Green Movement uprising. Like many dual-national Iranian journalists, I haven't dared to return since the violent suppression of the protests. (Reporter Jason Rezaian of the *Washington Post* has been detained on espionage charges for more than a year.) I've followed the country through family and friends, most of whom tell the same tale: six years of diminished hopes and sullenness, brought on by global economic ostracism.

The nuclear deal changes everything. The West—and most Americans—view a rapprochement with the Islamic Republic with uncertainty and some dread, but in Iran there's a thirst for reengagement. Ordinary Iranians and even some businesspeople predict the relief from sanctions will be quick and visceral. "There's simply a huge amount of key technology we either don't have access to or have to pay twice as much for under the table," says a prominent petrochemical industry figure, who asked not to be named because of security concerns. He says the cash-strapped government has been paying engineering companies with shiploads of oil. "It will be a relief simply getting paid with regular cash."

After the U.S. imposed banking sanctions in 2011, businesses faced crushing day-to-day challenges that made everything from obtaining letters of credit to buying spare parts and transferring money from abroad onerous. Even seemingly benign information was hard to get: "If you want to read a *Harvard Business Review* article, you have to jump through six hoops," says Ali Ghezelbash, co-founder of the European Iran Research Group. Getting onto the magazine's website was circuitous, requiring the use of private virtual networks and proxy servers; receiving a hard copy via subscription was impossible.

Iranian consumers—like my maternal aunt who bought her iPad at Tehran's Paytakht gadget bazaar for $600, a price so enormous in local terms that it made me gasp—say they hope a deal will mean better products and fairer prices. Young people like Bahram Naderi, 27, want to have access to the world again. The computer science graduate from Islamic Azad University used to be able to travel abroad once a year and purchase the occasional gadget to help him stay on top of his field. Three years ago, he started a master's business program at a college in Cyprus, but he had to quit and return to Iran when inflation spiked and the Iranian rial plummeted, halving his savings. "My dreams crumbled," he says. Inflation is lower today, and Naderi hopes the deal will bring costs down even more, making studying and traveling abroad again within reach of the middle class.

If you drive up and down Tehran, it's hard to know that Iran has been suffering. The city is cleaner and greener than before, according to Ghezelbash, who shuttles between Iran and Europe. "This has never been a place that was about to crumble," he says. "But the opportunity cost has been high." What a deal will do most immediately is restore enough optimism so Iranians will invest in their own country again. "That kind of psychology will take on a life of its own," he says. "If people are hopeful, they're likely to take more risks, get involved in entrepreneurship and new ventures."

Optimism does have its limits, though. Iran's labor force, while young and highly educated, isn't well-trained to meet the needs of international companies. Corruption and bureaucratic red tape are endemic. The country's darkest realities—the heavy-handed role of the Revolutionary Guards across the economy (dominating gas pipeline and infrastructure projects as well as critical industries such as telecommunications) and radical hard-liners itching to sabotage the rapprochement—stand as potential spoilers. Those powerful interests kept Iran isolated; until they're pushed to the political and economic margins, real growth will be elusive.

Takhfifan's Daneshvar says she's realistic: "It's going to take years for things to really change." For the tech business, where there has been an impressive number of startups despite high inflation and economic malaise, Iran's opening will bring as much anxiety as potential. Entrepreneurs expect rivals, backed by Western venture capitalists, to enter the market. If they don't buy or join with locals, they could pose tough challenges.

Yet the country's mercantile instincts are undeterred. Its urban classes were once cyber innocents: For years, my relatives would simply give their debit card PIN numbers to shopkeepers to enter for them. Now, almost everyone is savvy to e-commerce and online security. In Silicon Valley, thousands of entrepreneurs of Iranian descent, such as EBay founder Pierre Omidyar and Google executive Omid Kordestani, have been trailblazers in the tech industry; they could be looking for a moment to come back to Iran, make a fortune, and help rebuild their country. Some who dipped in during the moderate era of the early 2000s—before sanctions made business impossible—could rev up their operations again. Xanyar Kamangar, the Tehran-born founding partner at investment firm Griffon Capital, says, "This historic deal will pave the way for the opening of the last major frontier market."

The government will have to deal with popular expectations of a wider opening up of society

The government may have resolved the diplomatic technicalities of its confrontation with the West, but it will have to contend with popular expectations. Many in the middle class want loftier change. "There's this underlying mood that there will be a wider opening up," says Nader Hemati, a property developer in Tehran. "People think if these sanctions are lifted, Iran's isolation will end and we'll suddenly have peaceful relations with the world."

A huge proportion of the middle class and even of the working classes hope for wider political and social transformation. Young people want free, fast access to the Internet. Journalists and writers want less censorship. They hope that with the threat of war and conflict receding, Iran's leadership will feel less beleaguered and more inclined to permit basic rights. President Hassan Rouhani promised all of these things from the same electoral podium he vowed to secure a nuclear deal.

The hopes may sound naive, but it's a sentiment that must now become part of the calculations of the country's rulers. More than sentiment, the market will come into play. "Increased competition will benefit consumers and investors," Ghezelbash says, "but in a roundabout way, also the domestic companies that have been shielded from it. In business, as in nature, there is a limit to how much you can grow while insulated." The transparency demanded by global business dealings may help reform the monopolies that benefited regime cronies, making them less dependent and beholden to the ideologues who run the government. As the Iranian market grows competitive, those who've prospered under the sanctions stand to lose the most when sanctions are lifted. B

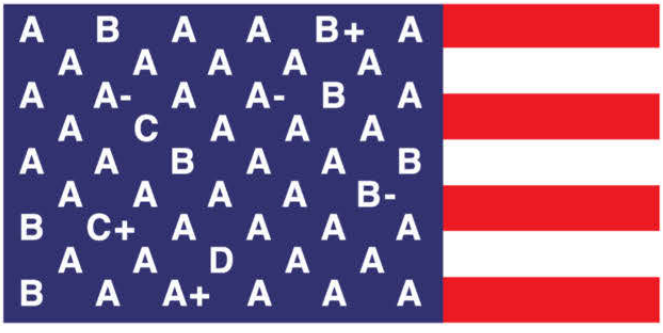
Moaveni is a former Tehran correspondent for Time *magazine and the author of* Lipstick Jihad. *She lives in London.*

To read Daniel Gordis on Israel's religious rebellion and Megan McArdle on American productivity, go to

Bloombergview.com

More Children Left Behind

Obama should veto the proposed law that removes states' accountability



No Child Left Behind, the federal education law that conservatives and liberals both love to hate, is broken. Rather than repair it, however, Congress is preparing to remove its most important feature: the accountability it imposes on states to ensure that schools meet the needs of struggling students. President Obama should make clear that he will veto any bill that limits the federal government's power to spur national progress on education.

The law, adopted in 2002 with bipartisan support, was a response to states' failure to hold schools accountable for student performance. It required states to develop annual reading and math tests for children in third through eighth grades, as well as a test for high school students. Schools that failed to make steady progress had to put together plans for improvement, provide free tutoring, and give students the chance to transfer to better schools. Continued failure could result in a school being closed, taken over by the state, or converted to a charter school.

The law was a necessary corrective to the country's long period of education stagnation. It helped produce significant gains in reading and math and narrowed the racial achievement gap. But it contained two major flaws: It allowed states to define student success however they liked. And it set a goal of 100 percent student proficiency by 2014—a level of perfection that educators could attain only by dumbing down standards. Rather than raise the bar, many states lowered it—faking progress.

Congress could establish a national base line for student performance and set realistic goals for student progress. But lawmakers are doing the opposite. Bills in the House and the Senate would allow states to create their own Lake Wobegons, where all students are above average—and the federal Department of Education would no longer be able to challenge them.

The House bill is worse than the Senate's, because it waters down testing requirements. Both would enable elected officials to hide failing schools, often in poor neighborhoods, from parents and voters. And they would eliminate the requirement, essential to classroom-level accountability, that student achievement be a factor in teacher evaluations. The bills would even limit the education department's ability to offer states incentives to adopt strategies that have proved effective—as the Obama administration's Race to the Top program has done.

Senators will have a chance to vote for amendments that would strengthen accountability requirements, mitigating the damage Congress is preparing to inflict on U.S. schools.

The president has a strong record on education, but he's been strangely quiet about Congress's plans to cripple the law. He should speak out for the country's need to protect all vulnerable students and bring changes to all failing schools. And if it comes to it, he should make sure this legislation ends with a veto.

The Other Side of El Chapo's Tunnel

Peña Nieto's credibility is threatened after the drug lord's second escape

Mexican drug lord Joaquín Guzmán was just looking to bust out of prison. But his mile-long escape tunnel—complete with a motorcycle on rails—provides a perfect illustration of the institutional corruption that's undermining Mexico's future.

In practical terms, Guzman's latest escape may end up being as meaningless as his capture: His Sinaloa cartel, which supplies anywhere from 40 percent to 60 percent of the U.S. drug market, continued its operations mostly undiminished while El Chapo was in captivity, in part because he was reportedly able to steer it from his cell. Although President Enrique Peña Nieto has played up the capture of drug "kingpins"—a strategy he belittled before his administration took office—for most Mexicans, violence and crime continue unabated, all too often enabled or perpetrated by policemen and soldiers.

El Chapo's breakout threatens more than Peña Nieto's credibility (on Guzman's recapture last year, the president said it would be "unforgivable" if he escaped again after his first jailbreak in 2001). Not only are Peña Nieto's security policies in shreds, but his economic reforms have yet to yield the growth he promised. Investors are fast losing faith in any "Mexican Moment" of economic growth.

If Peña Nieto wants to help his citizens and revive his political fortunes, he will have to focus on security. That means speeding up changes to the justice system to make it more transparent, efficient, and fair. It means devoting more resources to strengthening local police forces; and it means putting in place the anti-corruption measures that the legislature passed last spring.

More broadly, Peña Nieto must confront the culture of impunity that has shielded officials. After Guzman's flight, officials and commentators in the U.S. and Mexico bemoaned that he wasn't extradited to face trial and imprisonment in a less corruptible system. But outsourcing those functions to the U.S. is shortsighted. Mexicans will not be safe until they can trust those who are supposed to protect them. Ⓑ

ILLUSTRATION BY OTHER MEANS



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The World Will Survive

▶ Crazy markets in China? Cloudy future for Greece? The worldwide economy soldiers on

▶ In the long term, "we seem to be slowly drifting into a global productivity crisis"

You wouldn't know it given the noise from China and Greece, but the world economy is picking up steam. Even though weak productivity growth and inequality cast a shadow on long-term prospects, the rich economies are, after a less than encouraging start, faring better this year. Easy-money policies by central banks are helping fuel spending and investment. Many economists say the contagion from regional trouble spots will probably remain contained. "We expect the global economy to continue on the path of gradual recovery," Chetan Ahya and Elga Bartsch, **Morgan Stanley**'s co-chief economists, wrote to clients on July 9.

Although Greece's outlook remains unclear, the deal struck on July 13 reduces the likelihood that it will leave or be forced out of the euro zone in the near future. Even before the agreement, investors were signaling confidence that authorities could protect other nations such as Italy, Portugal, and Spain from coming under pressure by using such tools as the European Central Bank's bond-buying programs. The Greek economy is in free fall, but it makes up less than 2 percent of the euro area's gross domestic product.

China, the world's second-largest economy, is a bigger worry. The recent stock market plunge there isn't the real problem: Chinese stocks are up over the past year, even after their declines, and Société Générale estimates equities account for only about 6 percent of household wealth, so their influence on consumption is limited. The greater concern is that the stock slide reflects underlying growth problems, including slowing investment, which could lower China's demand for imports. On July 13 the government reported that imports fell 6.7 percent in June from a year earlier, and exports rose 2.1 percent. This is especially bad for countries that sell a lot to China. **JPMorgan Chase** economists have flagged such China-dependent economies—including Brazil,

Japan and China get out their checkbooks in the fight for Asia 16

Iran's oil is ready to flow 16

Brazil's poor reject their champion 17

A Saudi prison treats jihadis to chandeliers and music 18

Currencies: The British pound is looking good 19



ILLUSTRATION BY BRAULIO AMADO; BARS REPRESENT PERCENT CHANGE FROM PRIOR QUARTER AT A SEASONALLY ADJUSTED ANNUAL RATE. DATA: MORGAN STANLEY

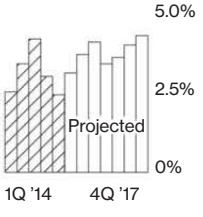
Indonesia, the Philippines, and South Korea—as the biggest immediate threat to the health of the world economy.

Offsetting those problems is continued stable, if not rapid, expansion in the U.S. and respectable growth in other developed markets, including Japan. Economists surveyed by Bloomberg expect the U.S. economy to expand in the second half of 2015 after a stumble in the first quarter, finishing the year with a 2.3 percent annual gain. The U.S. is back to its customary role as an engine of world growth, pulling in more imports from abroad, including China.

On July 9, Morgan Stanley predicted global expansion of almost 4 percent in the second half of this year, up from 2.9 percent in the first six months. It said monetary stimulus plans are taking hold and will be continued by 18 central banks this year, including those in China, Hungary, and New Zealand. "The strength of domestic demand in developed economies will be the key engine of growth," Ahya and Bartsch wrote.

At **Credit Suisse Group**, economists are sanguine even as they detect a "faint whiff of panic" over China's stock market rout and the financial fragility of Greece. They project improvements in the U.S. and Japanese economies, as well as higher industrial production worldwide. A third consecutive gain in monthly new factory orders internationally is supporting their optimism.

Global GDP growth



Even the bad news isn't so bad. On July 9 the International Monetary Fund lowered its estimate of world growth this year to 3.3 percent, from the 3.5 percent it had predicted in April. Yet much of that cut comes from the slight contraction the U.S. economy sustained in the first quarter, not from lowered estimates for the rest of the year.

The global economy seems to be on sure footing for 2015, but economists remain concerned about the longer term. The Conference Board, a U.S. business-supported research organization, recently warned that a failure of companies to invest means "almost everywhere we seem to be slowly drifting into a global productivity crisis." Low productivity growth, which afflicts most industrial nations, saps profits and ▶

◀ eventually lowers living standards.

Investors, especially bond investors, are still focusing on reasons to buy. Hans Mikkelsen, a credit strategist at **Bank of America**, says the numbers to focus on are estimates of inflation in the next five years. Although fast inflation is bad, a slight rise would be good if it accompanies an economic uptick. Mikkelsen says the current situation, where long-term inflation expectations have held up despite the big declines in oil prices, depicts a much better outlook for global growth.

—*Simon Kennedy, with Peter Coy*

The bottom line Once again, the U.S. is the engine of the global economy, which is expected to grow 4 percent in the second half.

Diplomacy

In Its Fight for Allies, Japan Writes Big Checks

- ▶ Japan invests in its neighbors to keep the Chinese at bay
- ▶ "The competition for political influence ... is likely to accelerate"

One of Japanese Prime Minister Shinzo Abe's foreign policy goals is to team up with other Asian countries threatened by the rise of China. He's expanding Japan's aid for big infrastructure projects in Asian nations. In some cases the Japanese government finances these ventures through grants and loans; in others the Asian Development Bank, which has assets of $116 billion, counts 67 member countries, and is effectively controlled by Japan, lends the money.

Japan and the ADB have been funding projects since 1966, but the pace has picked up in the past year. On July 4, at a summit of five Mekong River nations, Abe pledged 750 billion yen ($6.1 billion) in aid, part of his plan to increase by 25 percent Japanese and ADB funding for infrastructure projects. The ADB lent more than $10 billion last year in Asia, a 17 percent increase from 2013. That, the ADB promises, is just the start of its new, more generous policy. In the spring, the bank unveiled plans to increase annual operations by 50 percent. "I want ADB to be stronger, better, and faster," the bank's president, Takehiko Nakao, said in a May 4 speech.

The projects Japan and the ADB have agreed to help fund include a port and an industrial zone in southeastern Myanmar, a highway in Vietnam's Mekong Delta, a bridge over the Mekong River in Cambodia, a subway line in Jakarta, a rail line in Thailand, the Delhi-Mumbai Industrial Corridor in India, and roads for the Indian state of Madhya Pradesh.

The Chinese didn't have a development bank of their own until President Xi Jinping created an alternative to the ADB in June with the opening of the Asian Infrastructure Investment Bank, which has $100 billion in capital and 57 members. The U.S. and Japan declined to join. For Japan, the rise of the AIIB means "the competition for political influence with China is likely to accelerate," says Euan Graham, director of the international security program at the Lowy Institute for International Policy in Sydney.

Some analysts are already predicting the Japanese push will lose momentum. The power of the ADB will wane, says Hong Hao, chief China strategist at Bocom International Holdings, an investment bank. The bank's "trajectory has largely been parallel with the economic development of Japan," he says. Abe has provided a short-term boost, but with Japan's population shrinking and the government heavily in debt, the ADB "is losing its relevance because of Japan's declining economic might." Toshiyuki Doi, a senior adviser in Bangkok with Mekong Watch, a Tokyo-based nongovernmental organization, says, "Japan cannot keep up with China." Just to play it safe, 42 states belong to both the ADB and the AIIB.

$100b

Capital available to China's Asian Infrastructure Investment Bank

Kraisin Vongsurakrai, director of the Thailand Board of Trade and secretary general of the Thai-China Business Council, says, "Thailand welcomes both China and Japan. But China still takes the lead."

Abe is relying on Asian leaders who need infrastructure funding but are wary of China, which is building artificial islands and an airstrip in the disputed waters of the South China Sea, where Brunei, Malaysia, the Philippines, Taiwan, and Vietnam all have claims. Abe can also count on the long track record of Japanese corporate spending in the region, where his country's multinationals account for 12 percent of foreign direct investment, making Japan the largest source of outside funding. China lags behind

Iran's Oil Spigot

Sanctions against Iran, devised to bring it to the negotiating table and curb its nuclear program, made it hard for the country to sell its oil. Deprived of customers and investment, Iranians saw production fall to less than half its peak before the 1979 revolution. A July 13 deal between Iran and six major nations could lift those sanctions, and the oil will flow.

—*Mark Glassman and Grant Smith*

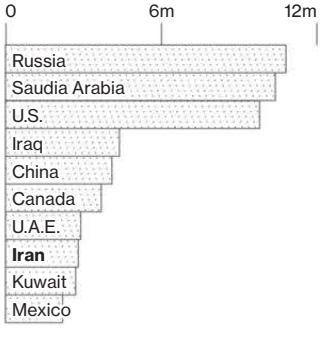
Iran's oil production

1974
6.1m
barrels a day

2015 (June)
2.8m
barrels a day

Daily production could jump to
3.3m
barrels as soon as sanctions are lifted, according to the Iranian oil minister's estimates. Six months later, daily production could reach
3.8m
barrels. Analysts say those timetables and estimates are optimistic.

Top crude oil producers
Barrels produced per day (May, June)



DATA: BP STATISTICAL REVIEW; IRANIAN OIL MINISTRY; ENERGY INTELLIGENCE GROUP; BLOOMBERG

at just more than 2 percent, says the Lowy Institute's Graham: "When you look at the investment picture, Japan is the giant. China cannot compare."

Asians can benefit from the Japan-China rivalry. The strategy of the Association of Southeast Asian Nations is "Let's hedge our bets and try to play off as many countries as possible," says Chia Shuhui, an analyst in Singapore with BMI Research. "The more the merrier." —*Bruce Einhorn, with Suttinee Yuvejwattana, Ting Shi, and John Boudreau*

The bottom line Japan is expanding aid to Asia before China's new development bank embarks on Asian infrastructure programs.

Inflation

The Favelas Sour on Dilma Rousseff

- Brazil's leader loses her base as prices soar
- "Clothes, my God! Milk, Lord in heaven! Even eggs are expensive"

Brazil's Congress hasn't moved to impeach embattled President Dilma Rousseff, but in a shantytown named for her, she's already been ousted. As high inflation hits the poor harder than the rich, the leader of the Comunidade Dilma Rousseff last month tore down the placard honoring the president at the entrance to the *favela* in Rio de Janeiro. The members of the community had hoped the sign would attract the attention of the government and lead to the favela getting electricity and a sewage system. "We put up a sign after Dilma was elected, thinking it was going to be worthwhile, but nothing at all happened," says Marilene Silva Souza, who sells cookies and bottled water on a nearby highway. Now, thanks to inflation, she and other residents "are eating scraps. If you want to eat a little better, you have to pay an absurd amount."

After the start of Rousseff's second term in January, her government boosted state-regulated prices for electricity as well as bus and subway fares in an effort to tame the budget deficit and maintain Brazil's sovereign bond rating. The hikes, along with rising food costs, have propelled inflation to 8.9 percent, almost double the official target and up 2.5 percentage points since December. These changes cut the living standards of the poor, who form the base of Rousseff's Workers' Party and have turned against her. The presidential press office had no comment.



In a favela renamed for Rousseff, a sign honoring her was taken down





Some prices have risen much faster than the average rate of inflation. Electricity costs rose 42 percent in the first six months of the year. Urban bus fares went up 12.7 percent, beans as much as 24.5 percent, and eggs 14 percent, while the price of onions has gone up 148 percent. A severe drought damaged harvests and drove up the price of food.

Miranildes Coelho, a widowed mother of three, says every day is worse than the last. The monthly pension from her late husband, equivalent to the 788-real ($251) minimum monthly salary, can't properly feed and clothe her kids, she says. The eldest two understand when she can't afford milk, unlike her 4-year-old daughter. "Beef, rice, beans. Clothes, my God! Milk, Lord in heaven! Even eggs are expensive," Coelho says. "We have to hold on with that little salary." Inflation will be rising twice as fast as targeted by yearend, say economists surveyed by the central bank.

In the Dilma Rousseff favela, the placard was torn down on June 26, the day that the political weekly *Veja* published a report about alleged illegal donations to the president's 2014 reelection campaign, sparking renewed calls for her impeachment. "I took the sign down with anger, with sadness, with ▶

EDUARDO ZAPPIA/BLOOMBERG (3)

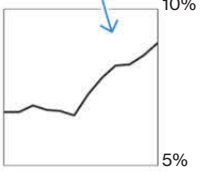
Brazil has one of the world's highest levels of income inequality

◀ disgust, with annoyance," says Pastor Vagner Gonzaga, the leader of the community. "I said, 'This is where it ends.'"

Overall approval of the government since December has fallen 31 percentage points, to 9 percent, according to a survey in late June by pollster Ibope. That's lower than the worst ratings for the government of Fernando Collor de Mello, who resigned from the presidency in disgrace in 1992.

Prosecutors are investigating whether sizable donations to Rousseff's reelection campaign came from the profits of inflated contracts awarded by **Petrobras**, the state-run oil company. Ricardo Pessoa, the owner of contractor **UTC**, was allegedly involved in the donations. Pessoa agreed to talk to prosecutors, and his testimony was leaked to the press, including *Veja*. Pessoa's lawyer declined to provide any details about his client's collaboration with the authorities.

Inflation in Brazil



The court that acts as the elections watchdog will hear testimony about the donations and is expected to rule soon on whether Rousseff derived an unfair advantage as the incumbent. Such a ruling could nullify the results of the election, though this is unlikely, according to political consultants Eurasia Group. Rousseff's party denies the allegations.

On July 9, Eurasia increased the odds of impeachment to 30 percent from 20 percent. Alejo Czerwonko, emerging-markets investment strategist at UBS, says impeachment is a long shot. The opposition prefers to have Rousseff stay in office and suffer the political cost of imposing austerity, allowing them to win the next election and inherit a recovered economy, he says.

If it were up to Pastor Gonzaga, Rousseff would be impeached. "I'm now anti-Dilma, anti-Lula," Gonzaga says, referring to Rousseff's popular predecessor, Luiz Inácio Lula da Silva. "I believed this government was for the poor." —*David Biller*

The bottom line Brazilian President Dilma Rousseff must deal with a campaign finance scandal, rising inflation, and voter discontent.

Radicalism

In a Saudi Prison, Playgrounds and ATMs

- Saudis arrest returning jihadis, then play nice
- The room "is a gift for the inmates who behave well. It's like a hotel"

Departing guests at the Family House in Riyadh are invited to fill out a questionnaire: Were the rooms clean? Was the food varied enough? Then they go back to jail.

The facility is inside al-Ha'ir, one of Saudi Arabia's five maximum-security prisons, and it's part of the kingdom's program to rehabilitate jihadis. Thousands of Saudis have defied a ban and are joining militants fighting in Syria and Iraq. Saudi authorities are seeking to ensure they don't bring the violence back home. Those who return and get caught may end up in the Family House and someday become free men. Of those who went through the rehab program, 14.6 percent return to terrorist activities, according to the Interior Ministry.

A room here "is a gift for the inmates who behave well," says Sarah Abdullah, a 30-year-old employee of the prison. "It's like a hotel," she says at the check-in desk, holding up an electronic room card. The two-story building features walled-in outdoor playgrounds for inmates' children. One suite has a room with three children's beds and a polka-dotted wall; another has chandeliers and speakers playing ambient music. Inmates get to stay for as long as 72 hours and can return to the hotel in another two months. The staff is all-female, so visiting wives and daughters feel comfortable, Abdullah says.

Saudi Arabia is part of the U.S.-led coalition fighting Islamic State. Its rulers know that calls to holy war resonate with many Saudis—especially holy war in Syria, where the jihadis' goal of ousting President Bashar al-Assad is shared by the Saudi government.

The Saudi rehabilitation effort is "probably the most serious and thoroughly resourced such program anywhere," wrote Paul Pillar, a former

Lockdown



A corridor in al-Ha'ir, one of five maximum-security prisons in Saudi Arabia that hold jihadis and others considered enemies of the Saudi state

Luxe



A bedroom at the Family House, a hotel-like amenity bestowed on jihadi inmates at al-Ha'ir as a reward for good behavior. Prisoners can spend as long as 72 hours there with their families

FROM LEFT: FAISAL AL-NASSER/REUTERS; COURTESY AL-HA'IR PRISON; GETTY IMAGES. DATA: INFLATION MEASURED USING BRAZIL'S BROAD NATIONAL CONSUMER PRICE INDEX. DATA: BRAZILIAN INSTITUTE OF GEOGRAPHY AND STATISTICS

CIA officer who is a senior fellow at Georgetown University's Center for Security Studies, in an e-mail. Yet it reaches only a small number of militants and falls short of "dealing in a more wholesale manner with the roots of jihadi radicalism in the kingdom," he wrote. The authorities work with Sunni clerics to help deter young Saudis from going on jihad, train the police to identify and arrest returning jihadis, and try to disrupt the financial networks supporting them.

More than 2,600 Saudis have traveled to Syria since 2011 to fight for militant groups such as Islamic State, and 668 have returned, according to the Ministry of the Interior. Many end up in al-Ha'ir or other top-security prisons. So do Saudis who funded, recruited, and housed the fighters. The number of inmates at the maximum-security prisons now exceeds 4,200, according to official figures. That number includes jihadis and others, such as rebellious Saudi Shiites, who are deemed enemies of the state. All the inmates at al-Ha'ir get a monthly allowance of 2,000 riyals ($533), which they can withdraw from ATMs in the prison, and they have opportunities for education and access to psychologists. "The main purpose is to rehabilitate them," says Colonel Mohammed "Abu Salman," the head of al-Ha'ir. For security reasons the colonel gives his nickname only.

In a courtyard inside al-Ha'ir, young men, all jihadis, sit on benches talking. One says he's a Saudi American from Texas, giving no further details. Another says he fought six months with a group linked to Islamic State in Aleppo. He says he headed home when he grew worried about his family and was arrested when he landed at the airport in Jeddah. In al-Ha'ir's medical ward, a 25-year-old man lies in bed, paralyzed from the waist down. He says he was shot by a sniper in the province of Idlib in northern Syria, after two years fighting for the al-Qaeda-linked Nusra Front. He made it to Turkey, where Saudi diplomats helped get him home. He says he now regrets his journey to Syria, knowing he'll probably never walk again. —*Glen Carey*

The bottom line The Saudis are trying everything from prison to hotel privileges to turn jihadis into responsible citizens.

Edited by Christopher Power
Bloomberg.com

Currencies

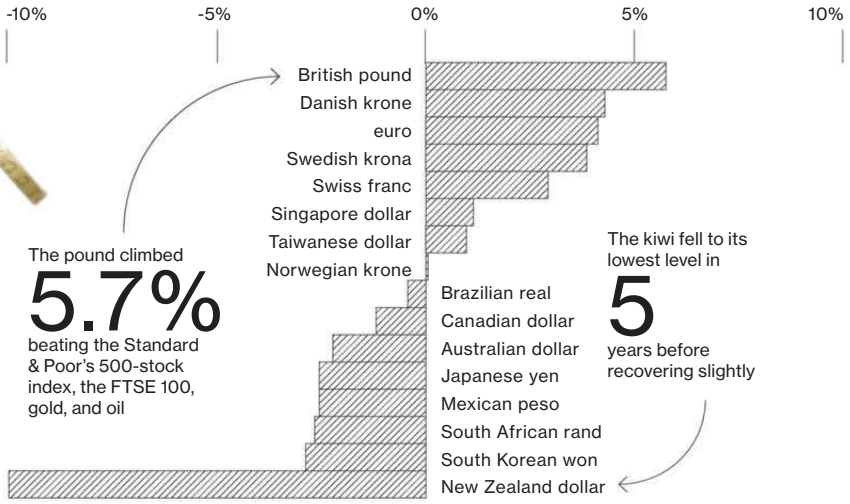
By David Goodman and Mark Glassman

The Mighty Pound

With the fate of the euro in question over the past three months, the big winner in the currency market has been the British pound. Investors spooked by the prospect of Greece's exit from the euro zone were drawn to the pound's stability and the U.K.'s strengthening economy.

The pound's rise is "due to the relative economic outperformance we've seen, rather than any big change in rate expectations."
—Simon Smith, chief economist at FXPro Group

The best and worst performers
Change in the value of major currencies vs. the U.S. dollar from April 13 to July 13



Rise of the pound
Deutsche Bank GBP Trade Weighted Index, which tracks the British pound against a basket of currencies



DATA: COMPILED BY BLOOMBERG

July 20 — July 26, 2015

‘OK, Ready for Work Again!!!’

A page from a Nidec comic book (read right to left)





▶ **Nidec’s chief executive sees himself as a comic book hero**

▶ **“Do it now, do it without fail, and do it until it’s completed”**

Ambition matters more than brains in Shigenobu Nagamori’s world. As chief executive officer of Japanese motor maker **Nidec**, Nagamori is known for his eccentric management style. Prospective employees have faced off against each other in eating and shouting competitions; new hires at headquarters in Kyoto have had to clean toilets. “Motivated people can do anything if they work hard,” Nagamori says in his autobiographical comic book, *The Man Hotter Than the Sun*. “It’s not people’s talents that matter,” the CEO tells his acolytes in one strip. Passion matters, and enthusiasm, and tenacity. And, if Nagamori is a role model, something else matters as well: a sizable ego.

Employees embrace his hard-line approach, says Ken Kusunoki, a professor of business strategy at Tokyo’s Hitotsubashi University. They’re motivated to work as hard as the CEO tells them to. “That’s how he’s able to make these businesses so profitable,” Kusunoki says.

The businesses include more than 41 companies that Nidec has acquired since its founding in 1973. Many were distressed and near bankruptcy. Most of the acquisitions after 2001 expanded Nidec’s operations beyond Japan. The corporation is the world’s biggest maker of precision motors, supplying more than 80 percent of the motors in hard-disk drives. In recent years, Nidec has started to produce motors for factory equipment, appliances, and cars. The company’s market value is $23 billion, and Nagamori’s shares, worth $2 billion, have made him the 10th-richest man in Japan.

He boasts of a rags-to-riches rise: Starting with three employees, he made small motors in a prefabricated hut next to his mother’s Kyoto farmhouse. Japanese companies, questioning the upstart’s abilities, refused to place orders with him. So Nagamori went to the U.S. and landed a contract with 3M to make a smaller motor for a tape recorder. “With this, Nidec Corporation’s reputation grew both inside and outside

MASERATI: ILLUSTRATION BY 731



Greece's other baggage is handmade 22

Briefs: Macy's star—real estate; *Watchman* on a roll 23

Japan," according to the comic book.

Nidec employs about 128,000 people globally. Corporate executives such as SoftBank Group founder Masayoshi Son seek Nagamori's advice about acquisitions and management. The CEO has met with such leaders as Prime Minister Narendra Modi of India, where Nidec recently built a factory and has four more under way. Executives polled last fall by *Nikkei BP*, an influential Japanese business publication, voted Nagamori the country's best CEO.

He looks the part, except maybe for the neon-green ties, the color of the company's flashy logo. The iconoclast in him comes out as soon as he opens his mouth. "In the early days, we had no choice but to hire rejects," he says in his folksy Kansai dialect. "Nobody else would come. But we trained the hell out of them, and they became great." Employees who've graduated from top business schools such as Harvard and MIT are incompetent when it comes to making profits, Nagamori has said, so he started an internal business school for his workers. His formula for turning around unprofitable companies: sell more stuff, cut costs. An inspirational poster in Nidec's offices declares, "Do it now, do it without fail, and do it until it's completed."

In the 1990s and early 2000s, Nidec acquired Japanese companies that were on the edge of bankruptcy and purchased castoff units of Toshiba and Hitachi. As consumers bought tablets and smartphones, the market for hard-drive motors started to dry up. Nagamori went on another buying spree. Nidec has acquired 14 companies since 2010. One of the first deals was the purchase of the motor business of U.S. appliance maker Emerson Electric.

"Most people didn't expect him to be able to do the pivot and find a new growth driver," says Scott Foster, an analyst at Advanced Research in Tokyo. Nidec's sales have increased tenfold since 1998, topping 1 trillion yen, or about $8.4 billion as of March. The next target is 10 trillion yen by 2030. If Nidec reaches that, it will rank as one of Japan's six biggest companies, larger than Sony and Hitachi today. Nagamori, 70, has promised to stick around until Nidec gets there: "I'm joking when I say I'll keep going until I'm 120, but I plan to keep doing it at least until we hit the target."

The "3Q6S Policy"

3Q

- Quality worker
- Quality company
- Quality products

6S

- *Seiri* (Keep things organized)
- *Seiton* (Keep things available)
- *Seiketsu* (Keep yourself clean)
- *Seiso* (Keep things clean)
- *Saho* (Keep good manners)
- *Shitsuke* (Keep good discipline)

In 2003, when Nidec bought Sankyo Seiki Manufacturing, an industrial robot maker based in the foothills of the Japanese Alps, the company was headed for a $280 million loss, its third bad year in a row. Twelve months after the acquisition closed, it had $178 million in profit. "The same people who were losing billions of yen—these same managers, same workers—they learned how to make money," Nagamori says.

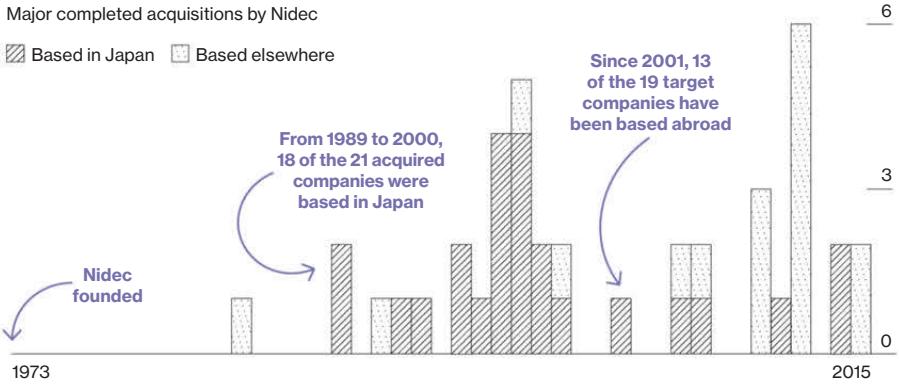
Not everyone finds working at Nidec so magical. Setsuo Matsui, who retired in 2010 after 42 years at a Sankyo factory in Nagano, says that after Nidec bought the company, Nagamori demanded that workers come in early every day to clean the facility; vacation was discouraged, and a chill came over the place. Matsui still remembers the unpaid Sunday he spent at a training session on office manners. Nagamori ordered that everyone learn how to bow properly. "I didn't feel comfortable claiming overtime or taking time off," Matsui says. "Neither did anyone else."

After the acquisition of a German water pump maker closed in February, Nagamori traveled to Merbelsrod, Germany, to tour the plants and offices. He was looking for dirt and grime, walls that needed painting, anything to be cleaned up. "There was a lot that could be improved," he says. "It made me happy to see it. I'm always disappointed if I don't see anything that needs fixing." —*Jason Clenfield and Masatsugu Horie*

The bottom line Nidec's CEO says motivation, not smarts, was key to building one of Japan's most profitable companies.

He Knew He Was Right

Major completed acquisitions by Nidec



DATA: NIDEC



Automobiles

Fiat Positions Maserati To Replace Ferrari

- Marchionne: It will be the company's most coveted luxury brand
- "If we push the volume out, we will pay the price"

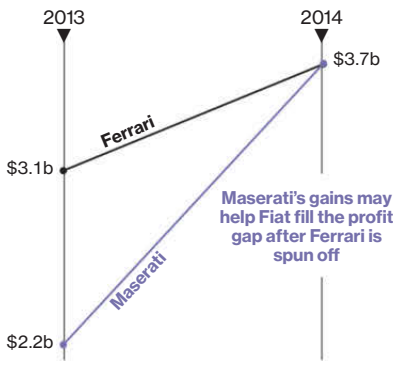
Ferrari's power, prestige, and profits have helped bankroll many of **Fiat Chrysler Automobiles'** more pedestrian brands—Chryslers, Dodges, and Jeeps. Chief Executive Officer Sergio Marchionne is betting that the company's Maserati sedans will fill the luxury gap when Ferrari is spun off later this year.

"Maserati becomes the most coveted, exclusive brand that we have," Marchionne says. He plans to add a sport-utility vehicle and a coupe to its lineup and open 21 more dealerships across the U.S. Maserati's reputation for performance is well-established, and luxury autos are selling briskly in the U.S. But the market is crowded, with **BMW**, **Mercedes-Benz**, **Lexus**, and **Audi** the four top-selling brands in the U.S.

Fiat bought 50 percent of Ferrari ▶

High-End Drag Race

Sales of luxury brands at Fiat Chrysler



DATA: COMPILED BY BLOOMBERG

◀ in 1969 and gradually increased its stake to 85 percent. Fiat bought Maserati from Ferrari in 1993. Marchionne announced a Ferrari spinoff late last year to raise cash to help pay down some of Fiat's debt.

Maserati's always been seen as very high-end and out of reach, which could be a problem. The brand "seems unattainable often even by those that are in the luxury category," says Alexander Edwards, managing director of Strategic Vision, a marketing research firm in San Diego. Maserati's entry-level sedan, the Ghibli, starts at $69,800, more than its two closest competitors: A comparable BMW 5 Series costs $49,950, and Mercedes's E-Class starts at $52,650. Introduced in 2013, the Ghibli at first sold well in the U.S., but in recent months dealers have aggressively discounted the model. "Margins have just gone down the drain since its introduction last year," says dealer Mark Akbar of AutoNation.

Maserati more than doubled global shipments, to 36,448, in 2014. But it's stumbled recently: This year through April, sales fell 9 percent from a year earlier, to 7,306. Maserati's first-quarter profit fell 39 percent, to $40 million, which the company attributes to a slowdown in China.

To broaden its appeal—global sales didn't crack 10,000 until 2013—Maserati, which sells four models, will add the Levante SUV in 2016 and the Alfieri coupe sometime later. SUVs make up about half of luxury car sales in the U.S.

Marchionne sees the brand as the linchpin of his €48 billion ($53 billion) plan to turn Maserati, Alfa Romeo, and Jeep into global brands and boost net income fivefold. The money will go to designing and building new models and expanding into new markets. Marchionne has pledged to raise Maserati profit margins to 15 percent from 10 percent and almost double global sales by 2018, to 75,000, the number at which Marchionne plans to cap production. "If we push the volume out, we will pay the price, and that's something we can't afford," Marchionne says. "You need to let the market take cars as they come."

Increasing profit will be crucial to Fiat generating sufficient cash to develop cars and technologies—a tall order, analysts say. Expanding the number of U.S. dealers will help. "They've got a hell of a lot to build on," says Joe Phillippi, president of Auto Trends Consulting, in Short Hills, N.J. "But it's incredibly expensive to play the game. Marchionne can't afford to stumble."

—Mark Clothier

The bottom line Fiat Chrysler's CEO has pledged to double global sales of Maserati, to 75,000, by 2018.

Austerity

A Greek Business Weathers Tough Times

- A fashion designer worries about the future—but vows to stay on
- "I had such an urge to start something that's mine"

Pavlina Papailiopoulou is looking for optimism wherever she can find it. As Greece and the European Union tussled over the country's debt, the 33-year-old fashion designer and business owner tried to put a smile on the crisis, posting this message on her company's Facebook page: "Dear all, Days are tough we know .. but it is summer SALES time, so smile and the world will smile back at you. (Europe give us a smile, come on) ♥, ippolito."

Things weren't quite so grim six years ago, when Papailiopoulou founded the fashion label **Ippolito**. She designs all the handbags and accessories sold in a boutique that's located in Syntagma, a touristy district in central Athens. Everything, from €40 ($44) wallets to €390 backpacks, is handmade at a small leather workshop nearby. Even under the best of circumstances, setting up a business in Greece is tough, given the red tape and bureaucracy. But now Papailiopoulou is struggling to run a fashion line when capital controls are in place, banks are closed, and local customers are scarce. Meanwhile, Greece's Parliament is wrestling with whether to accept a new bailout and the increased austerity that will come with it.

"I consider myself lucky, being in Syntagma," she said, just before the recent referendum. "Fortunately, I had two tourists in the shop yesterday, and today a Greek woman came in and bought something. I was extremely surprised. I said, 'Thank you so much.' And she said, 'In case we go back to the drachma on Monday, I want to own one of your bags.' "

Small businesses have sprouted up during Greece's crisis years: designers like Papailiopoulou selling clothing and jewelry, winemakers and olive growers trying to compete on a global scale, shop owners of all stripes. Greece's small-business owners were anxious even before the latest turn in the crisis. Many had been forced to close. Papailiopoulou considers Greece leaving

"I missed home. I just wanted to come back to family, friends, the sun, and live a normal life."
—Pavlina Papailiopoulou



FROM LEFT: PHOTOGRAPH BY EIRINI VOURLOUMIS FOR BLOOMBERG BUSINESSWEEK; KYOTO/AP PHOTO

the currency union the worst-case scenario. Importing leather from fellow euro zone member Italy would be prohibitively more expensive if Greece left the euro zone. In the July 5 referendum, Papailiopoulou voted to accept the terms of another European bailout. Greeks overwhelmingly voted "no"—61 percent of them. With Prime Minister Alexis Tsipras then agreeing to even more stringent conditions for a bailout, Papailiopoulou expects times to remain tough for Greeks. The taxes she will have to pay on her profit will likely rise to 29 percent from 26 percent. "I don't think I'll raise my prices. To be honest, that wouldn't be fair," she says. "I'm ready to spend a bit more. There are things we have to face, and that's life. Instead of swearing the whole day, that's what I choose to do."

By setting up shop in Athens, Papailiopoulou returned to her birthplace. She'd been away since 2000, first at the University of Reading in the U.K., then in Italy, where she studied fashion and apparel design. She got her first job there, as a junior clothing designer with luxury brand **Bottega Veneta** under creative director Tomas Maier. "I missed home," she says. "I just wanted to come back to family, friends, the sun, and live a normal life."

Her choice was at odds with the massive emigration of Greeks, particularly those with education and marketable skills, seeking work in stronger economies. More than 200,000, almost 2 percent of the population, have left since the start of the crisis in 2009. She came back home after turning down a job offer at a fashion company in New York. "I had such an urge to start something that's mine," she says. "I said, 'I'm going to risk it.'"

Entrepreneurs like her can and will adapt, Papailiopoulou says. The important thing is to have choices. "People like me that are young and creative—youth goes away, creativity doesn't go away. I'll always create," she says. "I grew up believing I can do whatever I want to do, with all its difficulties. I will be really upset if there is no space for that here."
—*Dimitra Kessenides*

The bottom line More than 200,000 Greeks have left the country since the beginning of the crisis in 2009.

Edited by Dimitra Kessenides
Bloomberg.com

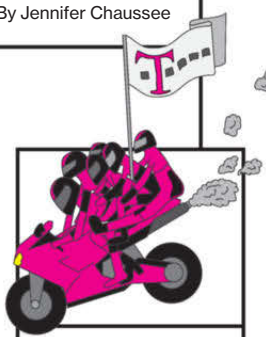
ILLUSTRATION BY SIMON ABRANOWICZ

Briefs

By Jennifer Chaussee

Belated Benefits?

Gay-and-lesbian-rights activists filed a class action against *Wal-Mart Stores* for allegedly denying health insurance coverage to same-sex spouses of Massachusetts employees. Wal-Mart extended benefits to same-sex couples in 2014, but the complaint contends the company violated the Civil Rights Act of 1964 and the Massachusetts fair-employment law by denying coverage to same-sex employee spouses before the policy change. Wal-Mart denies the allegations. Stock in Macy's rose 9 percent, to $72.01, after activist hedge fund Starboard Value invested in the retailer. Starboard Chief Executive Officer Jeff Smith said the stock could be worth as much as $125 if the company spins off its real estate. The finance arm of *Honda Motor*'s U.S. subsidiary agreed to pay as much as $25 million to settle federal allegations that dealers overcharged minority borrowers by as much as $250 each since 2011, according to a settlement with the Department of Justice and the Consumer Financial Protection Bureau. Honda didn't admit wrongdoing and denies the allegations. The Department of Education agreed to suspend debt collection from former Corinthian Colleges students for 120 days. The agreement comes amid negotiations between the department and a group of lawyers representing former students over debt relief for those who attended the for-profit college before it filed for bankruptcy in May. Harper Lee's controversial book, *Go Set a Watchman*, reached No. 1 on Amazon.com's Best Sellers of 2015 list after its release on July 14.



T-Mobile US is rolling out cheaper calling plans with higher data allotments for families. The new prices are the latest move to compete directly with giants like Verizon Communications.

$15

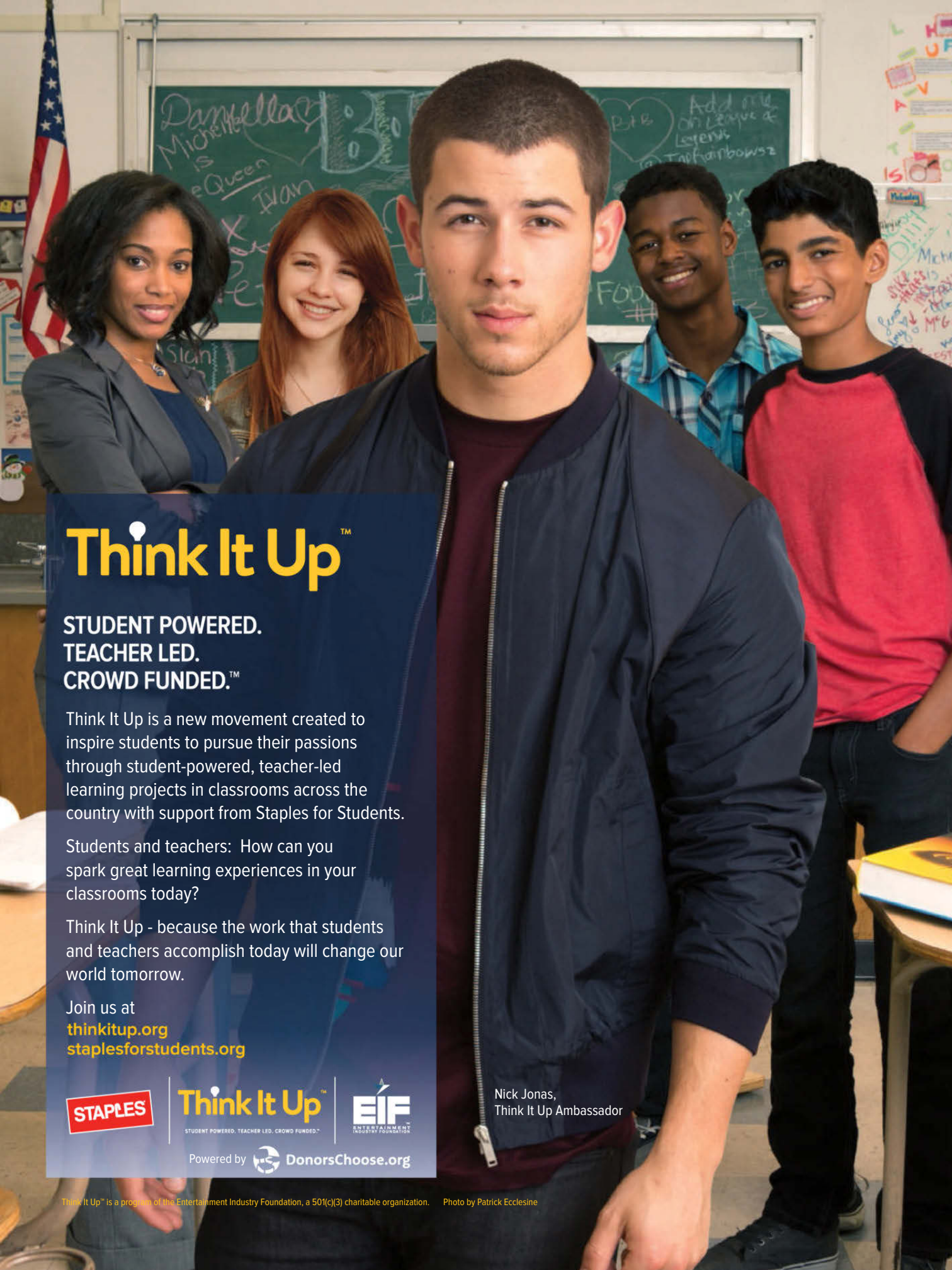
The monthly cost of Comcast's online TV streaming service. The Stream will provide existing Comcast Internet customers with access to about a dozen TV channels.

In Memoriam



"We do not run from risk. We run to it. We are taking the risk to move beyond the boundaries of the game industry to reach new players and current players."

Satoru Iwata, former president of Nintendo, who died on July 11



Think It Up™ is a program of the Entertainment Industry Foundation, a 501(c)(3) charitable organization. Photo by Patrick Ecclesine

Johnny Councilman can't read 26
Texas arms itself with insects to fight weeds 27
Republicans try science to get out the vote 28
Presidential potential: Rating governors vs. senators 29



GERHARD JORÉN/LIGHTROCKET/GETTY IMAGES

When airline execs talk to each other, prosecutors' ears prick up

"Communication is extremely important. You can't just watch the other guy"

In 1982, Robert Crandall, a senior executive at **American Airlines**, told the chief executive officer of Braniff Airlines, Howard Putnam, "I have a suggestion for you. Raise your goddamn fares 20 percent. I'll raise mine the next morning." He added: "You'll make more money, and I will, too." Putnam, who was recording the conversation, didn't go along. As egregious as the behavior was, the resulting Department of Justice antitrust suit against American was settled with an agreement by Crandall not to do it again. He was also ordered to record all contacts with other airline executives for two years. Braniff went bust; Crandall became American's CEO.

The question of what you can say and what you can't has come up again this summer. On July 1 the Justice Department confirmed it's investigating possible "unlawful coordination" by airlines. The four biggest carriers, American Airlines, **Delta Air Lines**, **Southwest Airlines**, and **United Continental Holdings**, said they were cooperating with the probe. Justice investigators are seeking details of conversations, meetings, and e-mails to determine whether airlines are discussing how to control the supply of seats, a critical factor in determining fares.

"In my experience looking at markets with just a few players, sometimes there is a temptation to coordinate behavior," says Bill Baer, assistant attorney general for antitrust. He declined to comment on the airline investigation. Airlines for America, which represents the carriers, says it's confident they'll be cleared: "Our members compete vigorously every day, and the traveling public has been the beneficiary."

Collusion cases depend on proving agreement between parties. According to antitrust experts, discussing planned pricing and capacity changes is more legally problematic than sharing historical data. A mention of a specific route is more dangerous than a general observation. Private ▶

◀ conversations are more likely to get you into trouble than public statements. Anything that can be construed as a veiled offer to restrain trade, followed by a veiled acceptance of that offer, is almost certain to land you in hot water. "Communication is extremely important. You can't just watch the other guy," says William Kovacic, a former chairman of the Federal Trade Commission, which enforces competition law along with the Justice Department. What violates the law, says Kovacic, now a George Washington University Law School professor, is "communication that indicates intentions and elicits a response."

The antitrust bar is buzzing with questions about what prompted the feds to look at the airlines. One trigger may have been the June meeting of the International Air Transport Association in Miami, at which airline executives talked openly about "capacity discipline," not-so-subtle code for limiting the number of seats available. At a press conference, Delta President Ed Bastian said his company is "continuing with the discipline that the marketplace is expecting." American Airlines CEO Doug Parker told Reuters it was important to avoid overcapacity: "I think everybody in the industry understands that."

Another red flag arose during the 2013 merger of American and US Airways, which Justice sued to block. According to documents filed in the antitrust suit, Parker, then chief of US Airways, forwarded e-mails complaining about aggressive competition to the CEO of a rival airline. That CEO, who wasn't identified, responded that it was an "inappropriate communication," according to the complaint. On July 15, American said it should be judged on "the benefits we have delivered to customers."

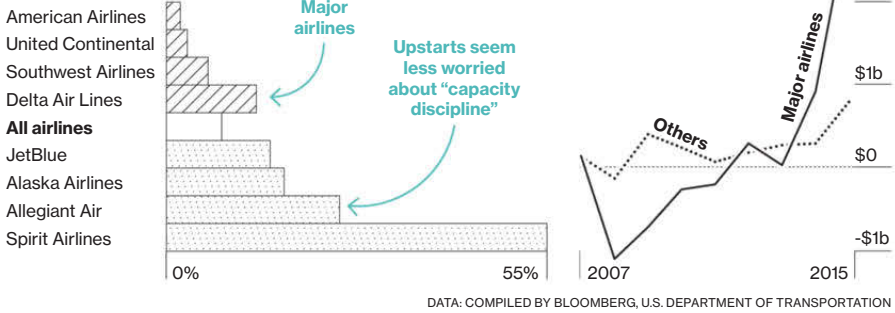
The Justice Department settled after both carriers agreed to sell some airport assets to rivals, decreasing the market power of the enlarged American Airlines. "This settlement will disrupt the cozy relationships among the incumbent legacy carriers," Justice's Baer said in a statement at the time. But it did nothing to reduce the potential for collusion, which is easier when there are fewer players in an industry.

Justice may also look into communications with investors. Academic research suggests big firms that own stock in multiple airlines discourage competition to keep industry profits high. "We find that product prices are 3 percent to 11 percent higher because of common ownership," Martin Schmalz of the University of Michigan's Ross School of Business and José Azar and Isabel Tecu of consulting firm Charles River Associates argue in a working paper. One of the asset managers it names is **BlackRock**, a large shareholder in the four major airlines. "We expect fair and ethical competition between the companies we invest in on behalf of our clients," BlackRock says.

Capacity discipline, which accompanied the merger frenzy following the 2008 financial crisis, is giving the industry a rare chance to make a buck, analysts say. "Despite being as consolidated as it is, it's still intensively competitive," says Andrew Davis, an analyst at T. Rowe Price Group, whose funds own airline shares. "This is an industry that from a profitability standpoint, if it doesn't rank dead last in the United States, it's got to be near the bottom," says Edmund Greenslet, a former Wall Street airline analyst who publishes the newsletter *Airline Monitor*.

Lately fares have fallen, in part because of the drop in oil prices. But the major airlines haven't passed along all the savings from cheaper fuel, and profits have soared. In any case, the Justice Department doesn't need to demonstrate fantastic profitability to prove collusion. It needs to show only that key people are opening their mouths and saying the wrong things to each other. —*Peter Coy and David McLaughlin*

The bottom line Discussions about capacity discipline may have kicked off a federal antitrust investigation of major airlines.



DATA: COMPILED BY BLOOMBERG, U.S. DEPARTMENT OF TRANSPORTATION

Wages

Memo to Lawmakers: Read the Fine Print



▶ Portland, Maine, passes a minimum wage law with a surprise inside

▶ "Everyone makes mistakes, and I think you just deal with those"

On July 6, the City Council of Portland, Maine, voted 6 to 3 to establish a local minimum wage of $10.10, a $2.60 increase over the statewide minimum. The next day, the mayor and several council members said they'd made a mistake. The law, which they thought would let restaurants and other businesses keep paying tipped employees $3.75 an hour, actually gave such workers a giant raise—to $6.35 an hour.

Fearful of hurting the city's restaurant industry, Mayor Michael Brennan and his colleagues on the City Council are working on a new ordinance that would undo the increase for tipped workers before it takes effect on Jan. 1. "I don't know what else to tell you, other than that when we voted on it, we felt we were voting on what the intent of the council was," says Brennan, a Democrat. "It was clear afterwards that what we had voted on and the intent of the council were not the same thing."

Maine's minimum wage, like the federal one, comes with a "tip credit," the amount employers can subtract from the minimum wage when paying workers who earn tips. In Maine, where

ILLUSTRATION BY GRAHAM ROUMIEU; ALAMY

the minimum wage is $7.50 an hour, the tip credit is 50 percent. If an employee's tips are too stingy to make up the tip credit, employers are supposed to pay the difference to get their total pay up to the regular minimum wage. A 2014 White House study found that workers who are owed a top-off under tip credit rules often don't get the money from their employers. Not all states have tip credits: Seven, including California, require tipped workers to be paid at least the going minimum wage.

Portland council members say they wanted to leave the base wage for tipped workers at $3.75, but increase the top-off requirement so they'd be guaranteed at least the new $10.10 hourly minimum. "To tell you the truth, when I read it, it wasn't plain to me how it accomplished what we were looking for," says Councilman Jon Hinck, a lawyer. "It didn't turn out quite as I anticipated."

The error was immediately flagged by the restaurant lobby, whose members say they tried to warn Portland's council members before the vote that the ordinance didn't say what they apparently thought it did. "It's very confusing," says Greg Dugal, chief executive officer of the Maine Restaurant Association. "For somebody that doesn't even know that a tipped person makes less of a wage than a regular employee, they're confused right out of the gate, because that doesn't make any sense to them."

Labor organizers are delighted. "I think Mayor Brennan and the council should be proud of the mistake that they made," says Kennard Ray, the national policy director for Restaurant Opportunities Centers United, which argues tip credits leave workers more vulnerable to sexual harassment. Groups like his are mobilizing Portland servers to lobby their council members–all of whom are either Democrats, independents, or members of the Maine Green Independent Party–not to repeal their accidental raise.

Members of the council say they intend to put things right. "Everyone makes mistakes, and I think you just deal with those and go back and correct them," says Councilman Justin Costa. "Even if that is not the norm at other levels of government right now."

On June 23 state legislators in Maine voted unanimously to fix a 2013 bill that, because of a drafting error that left out an "and," deprived an energy efficiency program of $38 million. Republican Governor Paul LePage, who's been at odds with Maine's Democratic House and Republican Senate, had unsuccessfully tried to use his veto to block the fix. He now has his own legislative accident: Maine's attorney general, a Democrat, announced on July 10 that 19 bills would become law because LePage blew a 10-day deadline to veto them. LePage, who says he was within the allotted signing window, has threatened to sue the legislature over the issue. He's since left another 51 bills unsigned that Democrats say are now law.

A vote on a minimum wage fix in Portland could come as soon as July 20. "There doesn't seem to be much disagreement on the intent, and we're not locked in the outcome," Hinck says. "I think we will be able to fix it without much trouble." —*Josh Eidelson*

The bottom line Portland's City Council passed a minimum wage hike that accidentally gave tipped workers a 69 percent raise.

Digits

8.8m



Total number of callers the **IRS**'s toll-free hotlines hung up on this tax season because of staff cuts, up from 544,000 in 2014. The practice is referred to by the agency as a "courtesy disconnect."

Security

Texas Calls in Bugs To Solve a Border Crisis

- Nothing else will stop the spread of carrizo cane along the Rio Grande
- "The plant has met its worst enemy" in the Arundo wasp

It's been burned, bulldozed, hacked, and poisoned. Now the state of Texas wants to try wasps to get rid of carrizo cane, a giant reed that chokes the banks of the Rio Grande and creates natural cover for traffickers operating along the U.S.-Mexico border. Stands of dense cane have camouflaged migrants, drug stashes, and, in one instance, a Bengal tiger cub abandoned by smugglers. "I've heard agents talk about it like it was Sherwood Forest," says Francis Reilly, an environmental consultant who advises U.S. Customs and Border Protection, which favors eradicating the plant. "They'd hear screams or gunfire in the cane thickets and not be able to find anybody when they went in."

Texas Governor Greg Abbott signed legislation in May authorizing the state's Soil and Water Conservation Board to spend $10 million to eradicate the cane. That would pay for John Goolsby, a U.S. Department of Agriculture entomologist, to release an armada of cane-eating Arundo wasps from France, where the plant grows near the Mediterranean coast.

Carrizo cane sucks up enormous quantities of water, a problem in the parched Rio Grande Valley. (Spanish speakers call carrizo *el ladrón de agua*, or the water thief.) But it didn't attract much attention until border authorities began cracking down on illegal immigration a decade ago. In 2008 the U.S. Department of Homeland Security announced a plan to annihilate carrizo cane with imazapyr, a powerful herbicide. The proposal sparked opposition from environmental activists in Laredo, Texas, who sued. Protesters, including priests and first-graders, descended on City Hall for a public hearing. The spraying scheme died without ever being put into action.

Since then, the feds have used bulldozers to tear up the reed by its roots, but that hurt the riverbank ecosystem, home to ocelots and rare jaguarundi, a type of wildcat. Agents set stands of the plant on fire, but the reed grew ▶

◀ back with a vengeance. They sent in crews armed with machetes and weed whackers tricked out with saw blades, but the manual approach proved too laborious.

In 2009, the USDA imported some Arundo wasps from Montpellier, a coastal city west of Marseilles, to test their efficacy on the Texas cane. It worked: The wasps ate through the carrizo, stunting its growth. Yet Goolsby worked to find support for expanding his wasp program. Biological control hasn't always worked smoothly. In 1883, mongooses were brought to Hawaii to kill rats that were chewing through sugar cane. They now feast on chickens, endangered sea turtles, and the eggs of the Nene goose, Hawaii's state bird. Goolsby, who's spent years letting small groups of wasps go free at test sites along the Rio Grande, says he's confident the French wasps will have appetites only for carrizo. "The plant has met its worst enemy," he says.

In early June, Goolsby took a group of professors, conservationists, and state officials on a tour of the muddy Rio Grande banks, handing out plastic jars of black Arundos. "Take the top off and find some cane where those little female wasps can start laying some eggs," he instructed. Wasps flew out and disappeared into the cane.

Goolsby says the $10 million from Texas would let him do a wide-scale release of the pinhead-size creatures. The wasps have another built-in advantage over other measures, says Reilly, the Border Patrol consultant: "Next year, if they decide they're broke in Texas or their priorities change, the bugs will keep on working."

—*Lauren Etter*

The bottom line After failed efforts to kill invasive cane along the U.S.-Mexico border, officials hope imported wasps will just eat it.

Elections

Republicans Buy Into the Science of Campaigns

- A small Washington club is testing ways of mobilizing conservatives
- "Presidential-year-only voters have been trouble for us"

A few weeks ago, Blaise Hazelwood, a Republican strategist, met Republican National Committee Chairman Reince Priebus for lunch at the Capitol Hill Club. Hazelwood, whose specialty is increasing voter turnout, handed over the results of an experimental study Priebus had commissioned. In nine counties across Colorado, Iowa, and Arkansas, Hazelwood's team last year deployed some of the most potent psychological tricks known to nudge a citizen into the act of voting. With a set pattern of visits at home, phone calls, and postcards, local Republican precinct captains spent weeks reaching out to people who had voted in no more than one of the last four national elections. The strategy increased Republican turnout by 2 to 3 percentage points in the midterm.

The findings excited Priebus, whose chief task right now is to get a Republican elected to the White House. "For some reason, presidential-year-only voters have been trouble for us," he says. "If we put people out in the field—and we have a limited amount of people and a limited amount of time—what's the combination of things we can do that have the best effect of turning out people who vote only in presidential years?"

As the RNC's national political director, Hazelwood helped elect George W. Bush in 2000. Her Grassroots Consulting now advises Louisiana Governor Bobby Jindal. In 2013, after Mitt Romney lost to President Obama, Hazelwood made the case to Sally Bradshaw, a longtime adviser to Jeb Bush who led the party's postmortem analysis, that Republicans had to invest in data analytics to keep up with the machinery built by the Democrats in



Texas officials participate in a USDA release of Arundo wasps in Starr County on June 9

VICTOR J. BLUE/BLOOMBERG

2008 and 2012. " 'This is the way I did it on this campaign that won, so this is the way we should do it on all campaigns,' " is how Hazelwood characterizes the dominant approach she encountered among GOP operatives. "The test for them is whether they win or lose on Election Day," she says. "That cannot be a valid test."

The result was the Center for Strategic Initiatives (CSI), a Republican group that hosts gatherings every six weeks in Washington to discuss and disseminate the results of field research on mobilizing conservative voters. CSI operates independently of the Republican Party infrastructure and routinely holds meetings at the Cato Institute, a libertarian think tank funded by the billionaire brothers Charles and David Koch. "We were disappointed in 2012 with how much money we spent and how little we had to show for it," says David Kirby, a Cato vice president and senior fellow who's run experiments testing the efficacy of lawn signs, a campaign staple. (They may actually work.)

At a meeting in early June, Hazelwood gathered 50 people, including operatives affiliated with Bush, Wisconsin Governor Scott Walker, Florida Senator Marco Rubio, and former Texas Governor Rick Perry, to hear about a new experiment. In the spring, Cato identified 600 Americans who read more than 20 books a year and made arrangements to send them each one more. One group received a copy of Ayn Rand's *Atlas Shrugged*, another David Boaz's *The Libertarian Mind*, and a third got a placebo: the Bible. The idea is to survey recipients at regular intervals over the course of a year to determine whether the books influence their political opinions. "Political books have never been tested," says Kirby. "Think tanks think that books persuade people. Do they?"

Priebus says being able to prove what works is invaluable when it comes to persuading Republican activists across the country to adopt new methods. "I can take that information and go sell it to the state parties and go into a boardroom to get people to cut a check," he says. —*Sasha Issenberg*

The bottom line Republican operatives are quietly testing new ways to turn out voters in the 2016 election.

Edited by Allison Hoffman
Bloomberg.com

13
Number of times Walker said "fight," "fighting," "fight and win," or "fighting to win"

Campaign 2016

Governors vs. Senators

In his announcement on July 13, Wisconsin Governor Scott Walker made the case that his state experience would make him a good president. Hillary Clinton, a former U.S. senator, countered on the same day with her own congressional résumé.

Scott Walker
Waukesha County Expo Center, Waukesha, Wis.
"Since I've been governor, we took on the unions, and we won. We lowered taxes by $2 billion. In fact, we lowered taxes on individuals, on employers, and property owners. Property taxes today are lower than they were four years ago. How many other governors can say that?"

Announcement expected July 21

Current or past governors running for president:
1. Jeb Bush (R)
2. Lincoln Chafee (D)
3. Chris Christie (R)
4. Mike Huckabee (R)
5. Bobby Jindal (R)
6. John Kasich (R)
7. George Pataki (R)
8. Rick Perry (R)
9. Martin O'Malley (D)
10. Scott Walker (R)

Hillary Clinton
The New School for Social Research, New York
"As a former senator from New York, I know firsthand the role that Wall Street can and should play in our economy—helping Main Street grow and prosper and boosting new companies that make America more competitive globally."

"Republican governors like Scott Walker have made their names stomping on workers' rights"

Current or past senators running for president:
1. Hillary Clinton (D)
2. Ted Cruz (R)
3. Lindsey Graham (R)
4. Rand Paul (R)
5. Marco Rubio (R)
6. Bernie Sanders (D)
7. Rick Santorum (R)
8. Jim Webb (D)

Candidates who have never been governors or senators:
1. Ben Carson (R)
2. Carly Fiorina (R)
3. Donald Trump (R)

How the economy has performed under former governors and senators in the White House

Average annual change in GDP

Governors		Senators		Other	
Theodore Roosevelt Term: 1901-1909	2.3%	**Warren Harding** Term: 1921-1923	9.7%	**William Howard Taft** Term: 1909-1913	3.4%
Woodrow Wilson 1913-1921	1.5%	**Harry Truman** 1945-1953	2.0%	**Herbert Hoover** 1929-1933	-6.6%
Calvin Coolidge 1923-1929	3.6%	**John Kennedy** 1961-1963	5.4%	**Dwight Eisenhower** 1953-1961	3.0%
Franklin Roosevelt 1933-1945	15.4%	**Lyndon Johnson** 1963-1969	5.6%	**Gerald Ford** 1974-1977	3.3%
Jimmy Carter 1977-1981	2.9%	**Richard Nixon** 1969-1974	2.9%	**George H.W. Bush** 1989-1993	2.1%
Ronald Reagan 1981-1989	4.1%	**Barack Obama** 2009-present	2.3%		
Bill Clinton 1993-2001	4.2%				
George W. Bush 2001-2009	1.7%				
	4.5%		**4.6%**		**1%**

Group average

2
Number of times Walker referred to Reagan during his speech

DATA: MEASURINGWORTH.COM, 1900-1928; BEA, 1929-2014. TERMS THAT ENDED PRIOR TO CALENDAR YEAR WERE MEASURED THROUGH THE CALENDAR YEAR



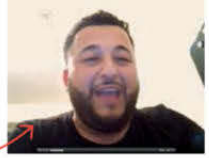
FROM LEFT: PHOTOGRAPH BY CAROLINE TOMPKINS FOR BLOOMBERG BUSINESSWEEK (1); YOUNOW (4)

▶ Live-video service YouNow is making stars and swearing off ads

▶ "Advertising does not help the creators"

Tayser Abuhamdeh recently lost his job at a bodega in the Williamsburg neighborhood of Brooklyn, N.Y. His boss couldn't tolerate the late-night clerk's habit of using his phone to broadcast running video commentary for anyone who cared to tune in during his shifts. As the tension between Abuhamdeh and his employer grew, so did the audience for the bodega broadcasts on his account, Mr.Cashier. When he finally got the call that he was fired, Abuhamdeh was in Chicago taking selfies with fans.

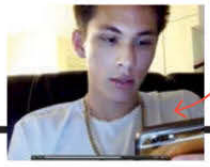
Mr.Cashier isn't trying to find a new job, though he's still broadcasting to his 139,000 followers on the live-video site **YouNow**.



Abuhamdeh says he makes three times what he did at the bodega. A 45-minute broadcast can net him $1,000. "Every day I think I'm going to wake up tomorrow and it's going to be gone," he says.

At a time when **YouTube** personalities are being cast in feature films and **Vine** celebrities are shooting TV commercials for Hewlett-Packard, social media stars are attractive to advertisers eager to captivate young eyeballs. YouNow, which the analytics firm App Annie ranks seventh in the U.S. among iOS social networking apps by gross revenue, is a favorite. The company says it logs 100 million user sessions each month, with visitors spending an average of 50 minutes a day, whether broadcasting their own videos or viewing those of others. Unlike YouTube, Vine, and most other amateur-video services, though, YouNow doesn't allow advertising. Instead, it relies on viewers to tip the people who make videos they like, taking a 30 percent cut for itself.

CarterReynolds has the most YouNow fans, at 727,000



"We take a creator-centric approach, and advertising does not help the creators," says Chief Executive Officer Adi Sideman. "Patronage supports a direct relationship between the creator and the audience." In June, YouNow says, people spent from $1.5 million to $2 million on tips. The company isn't profitable yet.

For people trying to make a living from their online popularity, four-year-old YouNow is a tantalizing experiment. If it can create a viable alternative to advertising with its digital tip jar—an Internet fixture since the early days of blogging—so might other buzzy live-streaming services, such as **Periscope** and **Meerkat**, which haven't publicly discussed their plans for making money.

Abuhamdeh's take on his Mr.Cashier account pretty well sums up YouNow's editorial mission: "I really had no goal, to be honest," he says. "I really just wanted people to see what I was doing every day, just taking them with me." In a recent broadcast, he kept his phone camera trained on his face while he boarded a plane. Viewers watched him rolling his eyes at a guy yammering on his own phone in the adjacent seat. The guy didn't seem to notice Abuhamdeh's phone conversation—thanking tippers several times a minute.

Other YouNow streams during a typical week: a boy with a Southern accent angrily telling commenters that he didn't "sound gay," then arguing with his mother when she walked into his room; two girls dancing and lip-syncing; an art student drawing silently while listening to her headphones. YouNow's 50 staffers strictly control which accounts can receive tips, in an effort to prevent the site from devolving into another genre of online video that thrives on gratuities: pornography. About 850 accounts are tippable, the company says.

App developers resist the lure of deep links 32

Innovation: CalWave goes power surfing 33

AlfieDeyes, who signed up a month after the site launched in September 2011, has almost 700,000 fans



People on YouNow agree to do things in exchange for followers or tips—using the site's chat window, someone might request, say, a particular song—but the culture of the site shuns the exhibitionism-for-hire found on adult sites. A common YouNow insult is the word "thirsty," used to describe people who are desperate for tips. Abuhamdeh says he won't explicitly encourage people to pay him. "That's one thing I never want to do in my life—ask for anything," he says. "If it ever came down to it, and I needed money, I'd just go and get a job."

Taking pains to avoid looking like you want money can make it harder to make money. Seth Shafer, an analyst at SNL Kagan, says YouNow's reliance on a gratuity model will limit its scale, because most people are used to getting everything online for free. There are alternatives for talented video makers, he says, ad-supported sites where they have "a clearer path to getting paid."

Andrew Graham, a senior talent manager at the YouTube network Big Frame, says he regularly scouts YouNow for up-and-coming talent. Broadcasters looking for a truly huge audience eventually have to focus on YouTube. "You spend your time, ultimately, where you make the most amount of revenue," he says. YouNow may be paying out a few million a month, but YouTube is minting millionaires.



CrankThatFrank's 14-hour broadcast is one of the longest on record

YouNow's Sideman says there's plenty of room for the site to grow. It's launching a version of its mobile app that will make it easier for people to find broadcasts that focus on specific topics. The site also recently signed up its first major media partner, the *Huffington Post*, which is doing a broadcast one evening a week in which an editor interviews social media stars. No money changed hands, and the *HuffPo* account doesn't accept tips. Sideman doesn't see Periscope or Meerkat, which he says are focused on "drawing professional content and slightly older audiences," as competitors.

Most of YouNow's tippable performers also have YouTube channels and **Twitter** handles, but those interviewed for this story describe YouNow as their primary platform. Jared Tousley, a North Carolina 17-year-old who goes by flippinginja on YouNow, says it's hard to match the feeling of a live broadcast. "It's very personal," he says. "If someone says hi to me, I can say hi right away."

Tousley quickly became a YouNow celebrity a year ago after his first broadcast, in which he dragged his sister on camera and demanded that viewers give her compliments after a rough day. This didn't escape the attention of his father, Darrell, who now has more than 32,000 fans of his own on the site, who will watch him cook spaghetti while cracking bad jokes. He recently quit his job teaching sculpture at the University of North Carolina School of the Arts and says his income from the platform will likely soon replace his $73,000 teaching salary. "I'm not planning on going back to teaching," he says. —*Joshua Brustein*

The bottom line YouNow is banking on the digital tip jar—not advertising—to make profits from live-stream exhibitionists.

Biofuel

Skimming Profits From Pond Scum

- A Japanese company tries to expand the uses of its algae
- "I'm really dreaming of making planes fly"

The future of fuel may be pond scum. More specifically, the green algae swirling around in a half-dozen tanks on Ishigaki Island in Japan's Okinawa prefecture. "They're like my children," says Seiya Takeda, a lab-coat-clad researcher who checks the freshwater tanks daily to make sure the single-cell organisms inside are thriving. "Sometimes I think they're very cute. Sometimes I think, 'Please grow up faster!'"

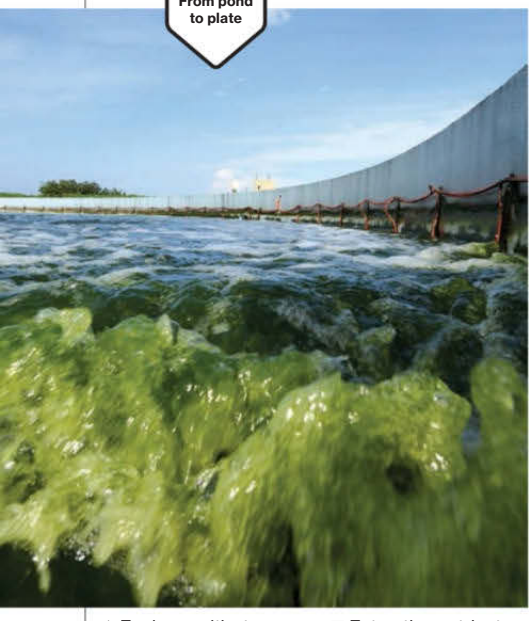
Takeda works for **Euglena**, a Tokyo-based company that made $37.8 million in its last fiscal year selling the type of algae after which it is named. The stuff—which is part plant, part animal, and has a slightly bitter taste similar to that of kale—is packed with nutrients, according to President Mitsuru Izumo. His company turns it into protein powders, health bars, noodles, and other foods. At high-end supermarkets in Japan, Euglena's health drinks sell for more than twice the price of regular fruit juice. The 10-year-old company has recently branched out into cosmetics and fertilizer. But Izumo says its true future lies in biofuel. "I'm really dreaming of making planes fly," says the president, author of a 2012 book, *I've Decided to Save the World With Euglena*.

Like a plant, *Euglena gracilis* can sustain itself through photosynthesis, which results in the production of lipids that can be refined into biofuel. In a year-old test project, Izumo's company supplies **Isuzu Motors** with a lipid-based additive that's mixed with regular diesel to power buses. **JX Holdings**, the parent of JX Nippon Oil & Energy, and **ANA Holdings**, which controls All Nippon Airways, have signed on to help Euglena develop a fuel for planes. A unit of **Chevron** has agreed to foot part of the bill for a special refinery to be built by 2018. "We expect the biofuel business to overtake health food, but we don't know yet if this will be in 2025 or 2030," says Izumo, wearing one of his trademark luminous-green ties, meant to evoke the color of algae.

Izumo traces his interest in algae to a summer internship with microlender Grameen Bank in Bangladesh when he was 18. Today, 2,500 elementary school students there are served cookies fortified with euglena at lunch, which the company supplies for free. The University of Tokyo graduate started the company in 2005 with funding from Takafumi Horie, a Japanese dot-com billionaire. When Horie was convicted of securities fraud in 2007, Makoto Naruke, a former Microsoft executive turned venture capital investor, threw the startup a lifeline. Euglena went public in 2012, and its shares have since climbed more than 2,400 percent, the best performance of any Japanese initial public offering in recent years. "They ▶

"We expect the biofuel business to overtake health food, but we don't know yet if this will be in 2025 or 2030"

From pond to plate



▲ Euglena cultivates its namesake algae in vats on Ishigaki Island, producing 59 nutrients for foods and supplements from the single-celled organism

▼ Extracting nutrients in the lab

▼▼ An algal health drink washes down a plate of carbonara at the company's Euglena Garden restaurant on Ishigaki





◀ have competitors, but they were there before them," says Tomohiko Ikeno, an analyst at Ace Research Institute in Tokyo. "The technology coming out now seems to be following them."

The global aviation industry has committed to cap carbon dioxide emissions starting in 2020. Biofuels, which are processed from renewable sources, typically produce less than half the emissions of petroleum-derived jet fuel. **United Continental Holdings**, owner of the world's second-biggest airline, announced last month that it's pouring $30 million into a strategic partnership with California's **Fulcrum BioEnergy** to develop jet fuel from garbage. Others have experimented with cooking oil, sugar cane, and drought-resistant jatropha and camelina plants.

The future of algae-based biofuel is still murky. **ExxonMobil** has put more than $100 million into a venture with a California startup called **Synthetic Genomics**, but so far it has little to show for its efforts. **Shell** bailed out of its own algae partnership in 2011.

Getting production costs down is the biggest challenge for producers of algae-based fuel, says Taira Enomoto, a professor of molecular biology at Kobe University. Izumo isn't fazed. "Airlines will have an incentive to use biofuel even if it's somewhat more expensive," he says. "We're now working on increasing the scale of production. We need giant facilities to create the tens of thousands of tons required by airlines."

—Tom Redmond and Yuko Takeo

The bottom line Investors have bid up the stock of Euglena more than 2,400 percent since 2012 as the company finds new uses for its algae.

Internet

Coders Balk at Making Apps Searchable

- Google and Microsoft push app developers to reveal their content
- "We prioritize features that are necessary over nice-to-have"

The giants of the Web have been pressing developers of mobile apps to index their content so it can be parsed by search engines or linked to from other sites. That's already possible with most Web pages, thanks to pieces of embedded code known as deep links. Imagine a future in which a **Google** search for a "tulle mini" would call up results from Wish, a fashion app, along with links to e-commerce sites. A **Facebook** user who wanted to share a recipe for vegan chocolate chip cookies from the Yummly app would be able to post a link that would take viewers to the relevant page instead of forcing them to download the app first.

12%

Increase in traffic on Etsy's app since it was indexed using Google tools

So far, the effort has been a bit like herding cats: Only a few thousand apps—a tiny fraction of the millions out there—have adopted the competing tech protocols that Google, Facebook, **Apple**, and others are pushing.

Apps accounted for seven of every eight minutes Americans spent interacting with media on a mobile device in 2014, according to a survey by ComScore. But because they're essentially walled gardens, there's little visibility into who frequents them and what they do there. That's frustrating for Google and Facebook, which make money by helping businesses target digital ads to the most receptive audiences.

Google's pitch to developers is that deep links benefit them by driving more traffic to their apps. The company says traffic on the **Yellow Pages** and **Etsy** apps increased by 8 percent and 12 percent, respectively, after they began using Google's indexing. Rajan Patel, a principal engineer at Google, says more than 1,000 apps—mainly those designed for its Android mobile operating system but also some for Apple's iOS—use its deep linking. "To us, the main advantage that we see coming from this is removing friction—not having to find the app on your phone and fire it up," says Atul Kakkar, principal product manager at **Eventbrite**, a website that helps people publicize and sell tickets to yoga classes, tech conferences, and other happenings. The company plans to start indexing its app to enable Google searches.

Some developers have resisted using deep links because it's costly and laborious to create separate code for each mobile platform. (Android and iOS are the predominant ones.) Inserting the

FROM LEFT: AKIO KON/BLOOMBERG (3); COURTESY CALWAVE (2); ILLUSTRATION BY 731 (2)

links eats up as much as 5 percent of the time it takes developers to build an app, says Alex Matjanec, managing partner at AD:60, a New York-based ad agency that creates apps for clients.

More than 1,000 apps use the Facebook App Links feature, which the company and its partners rolled out last year, to embed deep links, says Eddie O'Neil, a product manager. Startup **URX** says its deep-links technology has been deployed by hundreds of apps; **Yozio**, which allows developers to create deep links that work on all platforms, says it services about 600.

Vincent Wehren, a product manager at **Microsoft**, announced in May that the company had embarked on a push to build "a massive index of apps" on its Bing search engine. At its annual developers conference in June, Apple said the new generation of iOS will be able to pull up content within apps—even if they're not installed on the handset—provided developers have added the necessary code.

Still, the majority of app makers have resisted deep links, because they could reveal information they'd prefer to keep to themselves. **Open Garden**, maker of the FireChat messaging app, isn't making its product searchable—at least, not yet—saying it doesn't want companies like Google to have access to data on how many people use the app or what conversation topics are popular. "We prioritize features that are necessary over nice-to-have features that might please Google," says Stanislav Shalunov, Open Garden's chief technology officer.

Roger Kay, president of market-research firm Endpoint Technologies Associates, says the Internet used to be like a vast open range, and Google had access to all of it. "Then gradually the farmers showed up and started fencing things," Kay says. "And these fences were put up by folks that were fencing in the best pastureland—that is to say, the highest-value search items."

Facebook's O'Neil predicts that, despite the pockets of resistance, deep linking will eventually become the norm for apps. "Developers will continue to adopt it," he says. "It's sort of inevitable." *—Olga Kharif, Brian Womack, and John Fahnenstiel*

The bottom line Only a few thousand mobile apps—out of several million—have links that enable their content to be searched.

Edited by Jeff Muskus and Cristina Lindblad
Bloomberg.com

Innovation

Wave Power

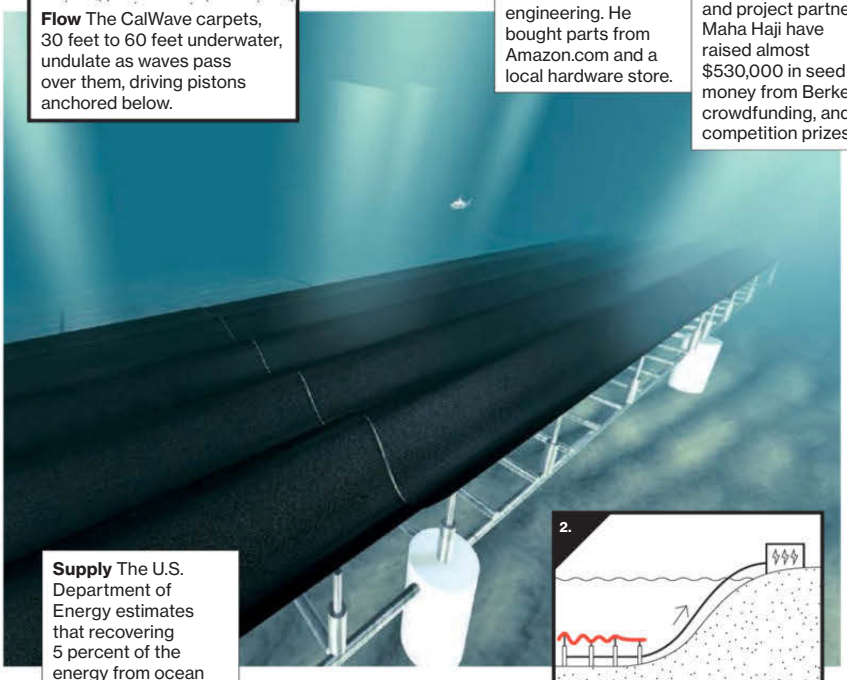
Form and function
CalWave, an underwater mechanism of springy fiberglass "carpets," generates electricity from ocean waves more efficiently and less obtrusively than wave-energy systems at the surface now in use in Hawaii and other places.

Innovator Marcus Lehmann

Age 28

Leads the year-old CalWave project at Lawrence Berkeley National Laboratory in California





Flow The CalWave carpets, 30 feet to 60 feet underwater, undulate as waves pass over them, driving pistons anchored below.

Origin Building on a concept from one of his professors at Berkeley, Lehmann assembled his first prototype in 2012, while earning his master's in mechanical engineering. He bought parts from Amazon.com and a local hardware store.

Funding Lehmann and project partner Maha Haji have raised almost $530,000 in seed money from Berkeley, crowdfunding, and competition prizes.

Supply The U.S. Department of Energy estimates that recovering 5 percent of the energy from ocean waves could power 5 million homes.

Ramping up In 2013, CalWave's second prototype topped 50 percent efficiency in converting wave energy to power.

Dual use CalWave is developing two versions of its system: one that powers a hydraulic motor to generate electricity and another in which the pistons drive seawater through the membranes of a desalination plant.

Next Steps

CalWave plans to switch on an 8-foot-by-30-foot prototype plant off the San Diego coast late this year. Lehmann says it will cost about $80,000 to build and generate 80 kilowatts of power, enough to run 180 homes. For commercial operations, multiple units will link together to form wider carpets. Lehmann and Haji are talking with IDE Technologies, which is building a $1 billion desalination plant in Carlsbad, Calif., about using CalWave as a power source. *—Michael Belfiore*

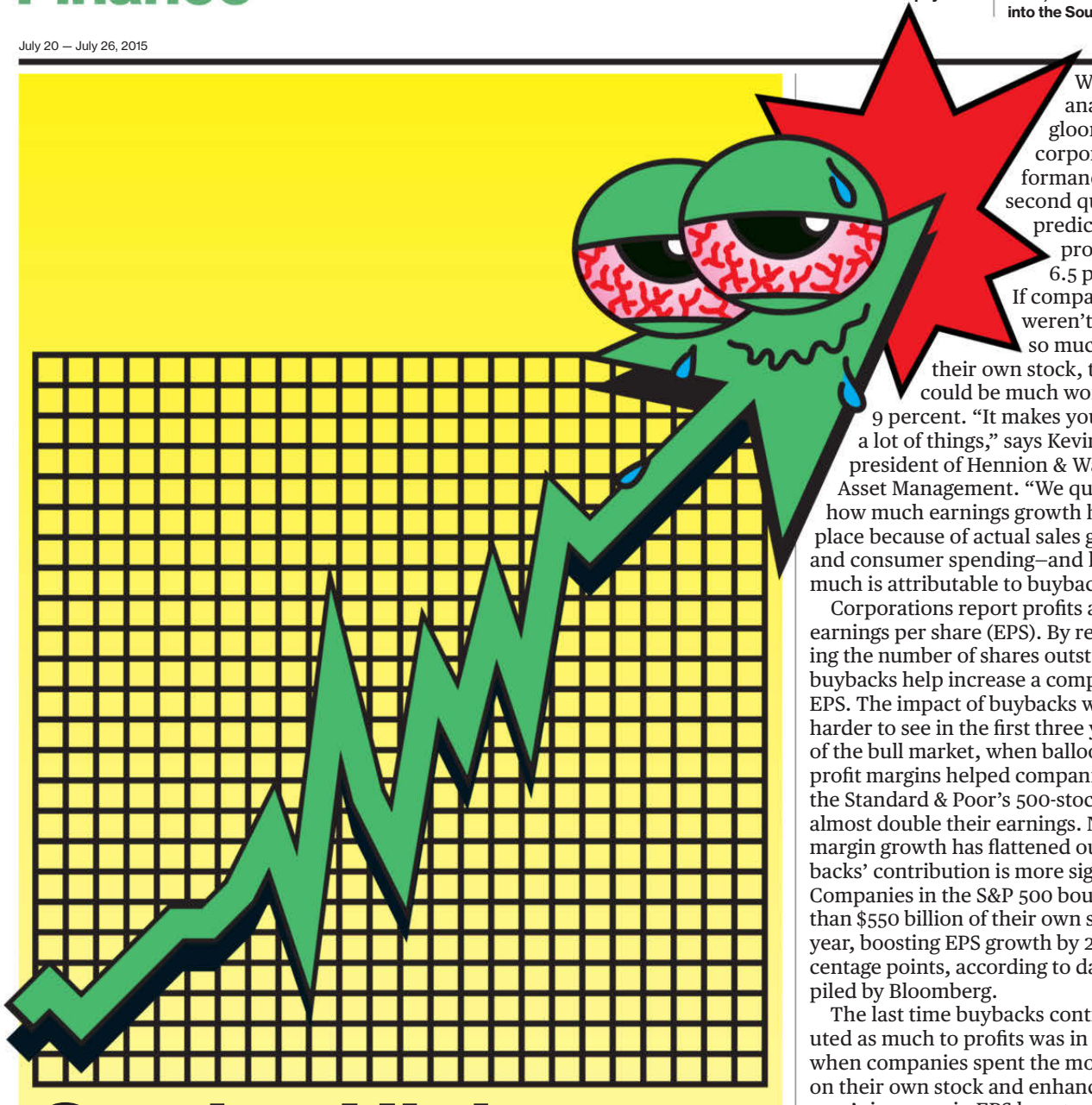

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How do you say "Can I play through?" in Chinese? 36

All the ways to calculate CEO pay 37

Charter schools learn the muni bond market 38

Bid/Ask: Jarden sets its table; WPX Energy digs into the Southwest 39



Getting High on Their Own Supply

- **Corporate stock buybacks put a floor under earnings**
- **"Companies have to do something with their cash"**

Wall Street analysts are gloomy about corporate performance in the second quarter, predicting that profits fell 6.5 percent. If companies weren't buying so much of their own stock, the drop could be much worse: 9 percent. "It makes you rethink a lot of things," says Kevin Mahn, president of Hennion & Walsh Asset Management. "We question how much earnings growth has taken place because of actual sales growth and consumer spending–and how much is attributable to buybacks."

Corporations report profits as earnings per share (EPS). By reducing the number of shares outstanding, buybacks help increase a company's EPS. The impact of buybacks was harder to see in the first three years of the bull market, when ballooning profit margins helped companies in the Standard & Poor's 500-stock index almost double their earnings. Now that margin growth has flattened out, buybacks' contribution is more significant. Companies in the S&P 500 bought more than $550 billion of their own stock last year, boosting EPS growth by 2.3 percentage points, according to data compiled by Bloomberg.

The last time buybacks contributed as much to profits was in 2007, when companies spent the most ever on their own stock and enhanced that year's increase in EPS by 3.1 percentage points. "Today the argument is buybacks are distorting the market, but I'm less certain," says Dan Greenhaus, chief global strategist at BTIG, which provides trading services to institutional investors. "To the extent companies have thought their shares are undervalued the past few years, buybacks have been a fair use."

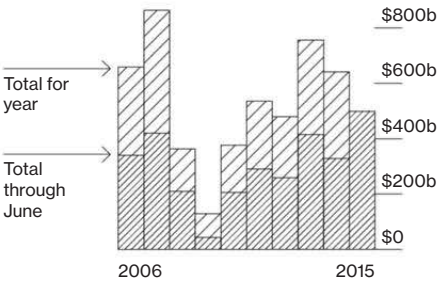
Buyback announcements so far in 2015 have already topped full-year totals for 2008, 2009, 2010, and 2012, and they're on pace to reach an annual record of $993 billion, according to Birinyi Associates. **AIG** announced ▶

ILLUSTRATION BY 731

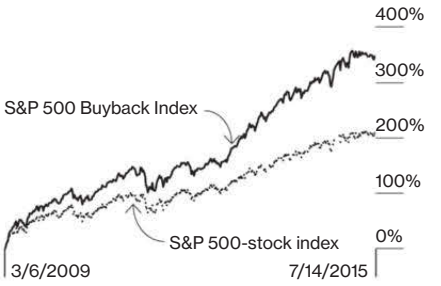
Distance from Shanghai to Myrtle Beach
7,754 mi

The Share Economy

Buyback authorizations are on track to top the 2007 high



Companies that spend the most on buybacks have outperformed the market



DATA: BIRINYI ASSOCIATES, BLOOMBERG

◀ a $3.5 billion share repurchase plan in April, and in June, **Wendy's** said it would buy $1.4 billion of its stock.

Some companies borrow money for share purchases. Over the three months through June 19, companies in the S&P 500 listed buybacks or dividends among the uses for $58 billion they raised in bond sales, according to data compiled by Bloomberg and Sundial Capital Research.

Since 2009 companies have spent $2.4 trillion on buybacks, drawing criticism from politicians who say the companies should use the money to hire workers, pay them more, build plants, and fund research. In her economic policy speech on July 13, Hillary Clinton vowed to "propose reforms to help CEOs and shareholders alike focus on the next decade rather than just the next day, making sure stock buybacks aren't being used only for an immediate boost in share prices." Senators Tammy Baldwin (D-Wis.) and Elizabeth Warren (D-Mass.) have asked the Securities and Exchange Commission to look into the practice, with Warren saying that buybacks "create a sugar high for the corporations."

Wall Street has its own doubts about the tactic. Investing in people, facilities, and research arguably could have a much bigger long-term impact on a company's bottom line—not to mention the entire economy—than a company taking advantage of low interest rates to borrow money to buy its own stock. That's the reasoning behind a letter BlackRock Chief Executive Officer Laurence Fink sent in April to the CEOs of S&P 500 companies, arguing that their "duty of care and loyalty" should be to long-term owners instead of activists agitating for returning more cash to shareholders.

One reason buybacks are common is that U.S. companies have earned so much money in the past few years. Over the previous 12 months they've generated $1.1 trillion in profits—a sum that "cannot possibly be reinvested back" as capital spending or research and development, says Dubravko Lakos-Bujas, an equity strategist at JPMorgan Chase. "Cash flow generation for U.S. companies has been very robust, balance sheets have remained pretty healthy, and interest rates are still low," he says. "With growth fairly anemic, it's extra reason for buybacks." Or as BTIG's Greenhaus puts it, "Companies have to do something with their cash."

When dividends are included, companies are returning about as much cash to shareholders as they have in the past. Added together and expressed as a proportion of stock prices, repurchases and other payouts total 4.3 percent—about the historical average, according to JPMorgan data.

Investors have shown that they approve of the tactic. Shares of the 100 companies that use the biggest portion of their cash on repurchases in 2014 have beaten those that spent more on plants and equipment, according to an April study by Barclays. Says Marshall Front, chief investment officer at Front Barnett Associates: "Corporations wouldn't buy back as much of their stock if they could make a significant increase in earnings over the years through investment."
—Oliver Renick and Michael P. Regan

The bottom line Companies spent more than $550 billion on their own stock in 2014, boosting earnings by 2.3 percentage points.

Real Estate

A Chinese Lender Bets On East Coast Golf

- ▶ Yiqian Funding buys 22 courses on South Carolina's Grand Strand
- ▶ "I think the market is at the bottom and will come back"

As Nick Dou bends down to inspect the 14th green at his Pine Lakes Country Club, with its antebellum-style clubhouse and magnolia trees, a question hangs in the humid South Carolina air. Can Chinese investors save American golf?

Pine Lakes, built in 1927, is the oldest course on the Grand Strand, a verdant coastal strip that stretches almost 60 miles along the Atlantic Ocean and is home to 100 courses. Like most golf destinations, the Grand Strand is struggling to recover from the boom and bust that's cut the value of many courses in half. Owners were buried in debt with no way out until **Yiqian Funding**, a Chinese peer-to-peer lender, swooped in and paid about $105 million for 22 courses, including top-rated Grand

Quoted

"If the economy evolves as we expect, economic conditions likely would make it appropriate at some point this year to raise the federal funds rate target"

Federal Reserve Chair **Janet Yellen**, testifying before Congress on July 15



WIN MCNAMEE/GETTY IMAGES

Over 15 hours travel time with at least one stop

Dunes Resort Club and TPC Myrtle Beach, along with other assets. "It's a big change for the golf business," says Dou, president of Founders Group International, the company he and Dan Liu, chairman of Yiqian Funding, created to manage the courses. "Maybe we are crazy. Maybe we bought too many courses. But I think the market is at the bottom and will come back."

Yiqian Funding, the biggest course owner on the Strand, is diverging from the well-worn path of Chinese investors who've driven up property prices in big cities from Sydney to Vancouver. Liu and Dou are gambling on a smaller market and a novel strategy. As younger Americans shun a sport that Jack Nicklaus called too slow, too hard, and too expensive, Yiqian Funding plans to lure players and investors from China.

Even as the Strand's Myrtle Beach, once a haven for bingeing college students, upgrades its image with fancy resorts, the prospect of thousands of Chinese flocking here seems farfetched. The region's 320,000 residents include fewer than 1,000 Chinese Americans. It takes at least 15 hours, plus one stop, to fly to Myrtle Beach from Shanghai. "It's very difficult to get here," says Mike Buccerone, president of **East Coast Golf Management**, which operates six courses on the Strand. "You have to fly over a lot of places—California and Las Vegas—where the Chinese like to go."

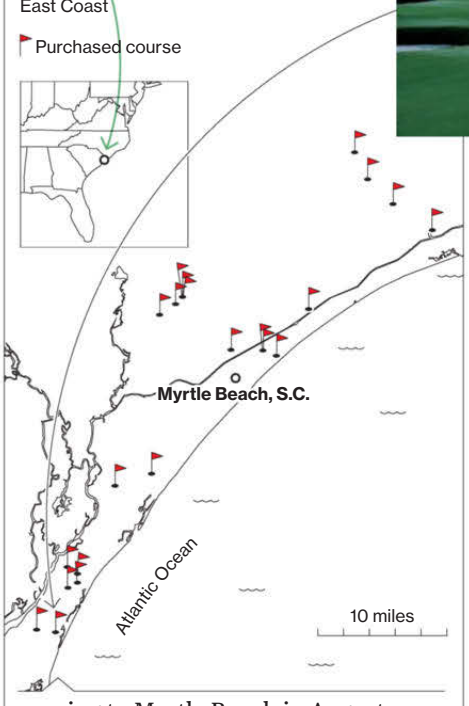
One factor that may encourage Chinese golfers to make the trip: As part of a campaign against corruption and extravagance, China's government has closed unauthorized golf courses and punished officials who used public funds to pay for their rounds.

> "It's very difficult to get here. You have to fly over a lot of places—California and Las Vegas—where the Chinese like to go"

Liu, 38, a college dropout, software programmer, and serial entrepreneur, brushes off the naysayers. "Never say never," he says. In six years he turned Yiqian Funding, based in Nanjing, into a company with more than 6,000 employees that arranges $1.2 billion in home and business loans annually. Dou says Liu plans to add as many as 1,000 branch offices in China to sell golf vacations and real estate in Myrtle Beach. He's also planning to develop an oceanfront hotel and is building a home at his World Tour Golf Club. He and his family are moving to Myrtle Beach in August.

In Command of The Grand Strand

Yiqian Funding bought 22 courses in a bid to attract Chinese golfers to the East Coast



The Chinese investors didn't intend to own golf courses. Dou, a New Yorker who came to the U.S. from China 25 years ago for graduate school, searched coast to coast for real estate deals before he and Liu settled on the Strand. Its mild winters, coastal grandeur, and abundance of land to expand appealed to them.

During a 20-year construction boom that started in 1986, the number of courses along the Strand doubled, driven by demand for condos that line the fairways. At the peak in 2000, golfers played about 4.2 million rounds a year on the Strand. The number has been stuck at 3.4 million since 2012, and golf course values have plunged. When Liu and Dou discovered they could buy a golf course for a few million dollars, about the same price as an apartment in Shanghai, they were sold. "Price was most important, and location," says Liu, whose company made its purchases from September to April. "It's beautiful."

Liu and Dou are making improvements to several courses and have started construction on about 80 homes. They purchased about 2,000 lots for houses and condos and sold 20 units to Chinese for $200,000 to $300,000 in June. "Maybe the golf business isn't so good, but you can make money from the real estate," Dou says.

Jane Zheng, a broker at **Keller Williams Realty** who's helped Chinese investors buy retail property and housing in Myrtle Beach, agrees. Home prices began to rise in 2013, but they haven't kept pace with Florida and Nevada, leaving room for growth. "Myrtle Beach has a lot to offer, but the Chinese don't know about this place," says Zheng, a former pharmaceutical research scientist from New Jersey. "Dan's group will do a good job to let Chinese know and appreciate it. They know how to sell in China." —*Vince Bielski*

The bottom line Yiqian paid $105 million for 22 golf courses in South Carolina, hoping to lure Chinese players and condo buyers.

Pawleys Plantation Golf & Country Club



COURTESY PAWLEYS PLANTATION

Compensation

Complicating the Calculation of CEO Pay

- The SEC wants to add new metrics to illuminate an elusive figure
- "Shareholders are not going to understand this type of analysis"

How much did Jeff Immelt earn last year? In **General Electric**'s annual proxy statement, the figure is $9.6 million, which seems modest by today's standards for the chief executive officer of America's eighth-largest company. On the same page, you'll find a much higher tally: $37.2 million.

That's his "total pay," a figure that the Securities and Exchange Commission has required companies to report since 2006. It includes long-term compensation such as stock options and pensions and is presented as an effort to clarify a murky number. "Shareholders need intelligible disclosure that can be understood by a lay reader without the benefit of specialized expertise or the need ▶

Numbers Game

Total pay Salary, cash bonus, stock awards, option awards, change in value of pension, perks such as security, club memberships, personal use of corporate jets

Realized pay Salary, cash bonus, stock awards that vested, stock awards that the CEO qualified for based on performance, gains from stock options that were exercised

NEW! **Actual pay** Salary, cash bonus, stock and options awards that vested during the year, change in pension value attributable to work during the past year, other perks and benefits

◀ for an advanced degree," then-SEC Chairman Christopher Cox said when it was introduced.

Companies have bridled at the rule in the years since, according to Mark Borges, a principal at compensation consulting firm Compensia, arguing that total pay overstates what the CEO makes because it includes such things as stock options, whose value depends on the company meeting performance targets. So companies have taken to doing their own calculations and presenting them prominently in annual reports along with total pay. GE calls the $9.6 million figure "realized pay," which reflects only the money the CEO earned during the year. "We use W-2 income as the measure of realized compensation because it is easy to understand and provides consistency from year to year," GE said in an e-mailed statement.

Coca-Cola also uses realized pay, although it calculates it differently. Coke reported that CEO Muhtar Kent realized $13.8 million in 2014, while under SEC rules his total pay was $25.2 million. "Our company designs our disclosure to provide both retail and institutional investors with the information they need in a way that is easy to understand," Coke said in an e-mailed statement.

Now the SEC is planning to introduce another benchmark, "actual pay," which would strip out some long-term compensation, such as stock options that haven't vested yet and changes in the value of the executive's pension. Under the formula, Immelt's 2014 pay would shrink by at least $24 million–but still be greater than his realized pay.

Companies would continue to report total pay, right next to actual pay. And they'd be free to state realized pay or any other figure they come up with. Critics say the jumble of numbers will make it even harder to pin down what the CEO really earned. Shareholder reports are already packed with arcane yardsticks that only professionals can grasp, says Daniel Alpert, managing partner at Westwood Capital in New York. **McKesson**'s 2015 compensation report runs 161 pages and provides nine charts that explain how the CEO and other top executives are paid. "Individual shareholders are not going to understand this type of analysis," Alpert says.

It's a challenge even for professionals. The Florida Retirement System, which manages $163 billion in pension assets, uses four different models to make sense of the figures, says Michael McCauley, senior officer for investment programs and governance. "Comp is the most convoluted, most complicated" item in the proxy report, he says.

Under rules in the 2010 Dodd-Frank Act, the SEC must add another metric to the mix: a ratio that indicates how many times more the CEO is paid than the average rank-and-file worker. The commission plans a vote on the requirement on Aug. 5. Because the ratio may be embarrassing, companies are expected to supplement the figure with more charts and graphs demonstrating that the CEO is worth every penny. —*Dave Michaels*

The bottom line While GE says its CEO "realized" $9.6 million last year, under SEC rules his compensation totaled $37.2 million.

Fixed Income

Charter Schools Tap the Muni Bond Market



▶ With enrollments rising, they find it easier to borrow to expand

▶ "Schools 5 or 10 years ago couldn't get to the market"

The **Children's Aid Society** sold municipal bonds on July 9 to raise money for its charter school, joining a record borrowing spree for such educational institutions across the U.S. The New York charity will use the $40.7 million from the bond sale to build a six-story building to house its charter school in the South Bronx, says Chief Financial Officer Dan Lehman. "The best and most reliable path out of poverty for children is educational achievement," he says.

Charter schools have issued $1.2 billion of municipal bonds so far in 2015, according to data compiled by Bloomberg, and they are on pace to break last year's record $1.9 billion. Muni bond sales by charter schools have more than doubled over the past four years, setting records every year since 2012, according to a survey by Local Initiatives Support, a New York nonprofit that focuses on revitalizing neighborhoods.

5%

Rate of charter school bond defaults since 1998

Federal rules allow nonprofits and private companies to sell tax-exempt "public purpose" municipal bonds to raise money for projects that benefit the community. Charter schools, which are independently run and provide an alternative for parents of children in poorly performing districts, receive public funding based on how many students they serve. Enrollments across the country climbed to 2.9 million in the school year 2014-15, according to the National Alliance for Public Charter Schools, up from 350,000 in 1999-2000. "Schools 5 or 10 years ago couldn't get to the market because they were too new," says Wendy Berry, a financial adviser to charter schools and former Moody's Investors Service analyst who wrote the Local Initiatives survey.

Even so, the debt is among the riskiest in the $3.6 trillion muni market because schools can close if enrollment drops or they lose their charter for poor performance. Of 818 charter school bond offerings since 1998, 41 issuers have defaulted, a rate of 5 percent, according to the survey. The average default rate for nonhousing muni bonds rated by Standard & Poor's since 1986 is 0.03 percent.

To compensate for the risk, a 30-year charter school bond can yield as much as 5.6 percent, compared with 3.4 percent for AAA-rated muni bonds with the same maturity. Susan Courtney, head of the muni

ILLUSTRATION BY 731

bond team at **Prudential Investment Management**, looks for large charter schools with a proven record. "You want to see steady enrollment trends, you want to see a decent waiting list," says Courtney, who doesn't plan to buy the Children's Aid bonds. "Obviously, we're also focused on the management and the board."

Children's Aid, founded in 1853, had never sold bonds before. Its school opened in 2012 and has about 280 students. Filling new classrooms should be easy: Enrollment in New York City charter schools has increased tenfold in the past decade, to more than 80,000 students, according to the New York City Charter School Center, an advocacy group. Almost 50,000 children are on waiting lists.

Unlike most charter schools that rely on revenue from enrollment to repay bondholders, Children's Aid has promised to fund the debt regardless of how much money the school takes in. That led Standard & Poor's to rate the bonds A+, based on the charity's long record of successful operations and favorable fundraising trends. The charity is paying 4.18 percent interest on the bonds. Similarly rated 30-year municipal debt yields about 3.4 percent, according to data compiled by Bloomberg.

Children's Aid receives grants from more than 150 corporations and foundations and has more than 140 government contracts that brought in about $75 million of revenue in fiscal 2014, according to a presale presentation for the bonds. The contracts include administering health- and foster-care programs. The charity had about $300 million in cash and investments at the end of April. It will make bond payments 90 days before the due date and has promised to keep enough investments and cash on hand to pay off the bonds, which will mature from 2017 through 2045. Putting Children's Aid's credit on the line shows the organization's commitment, says Lehman, the CFO. "This was something that we have proposed and put out there so that everyone would recognize, 'Hey, we're serious about this, and we're going to make good on our money.' "
—Martin Z. Braun

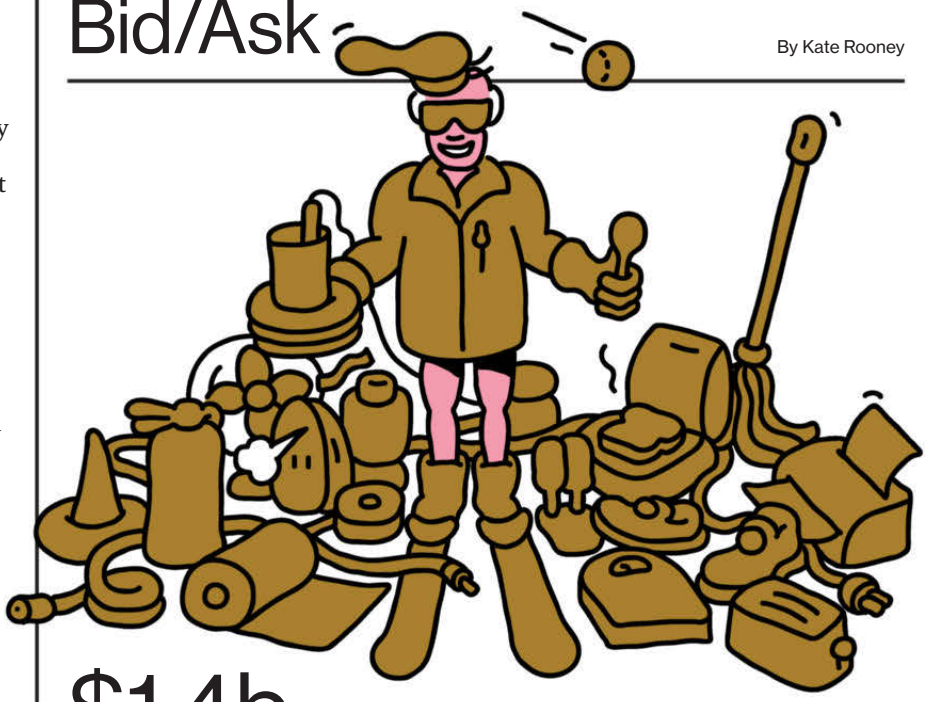
The bottom line Charter schools are on track to sell more than last year's record $1.9 billion in municipal bonds.

Edited by Eric Gelman
Bloomberg.com

BID/ASK ILLUSTRATIONS BY OSCAR BOLTON GREEN

Bid/Ask

By Kate Rooney



$1.4b

Jarden wraps up disposable cups, plates, and utensils. The consumer-goods company, whose wildly eclectic portfolio includes Yankee Candle, Crock-Pot, and K2 Skis, is buying disposable-tableware maker Waddington Group. The company's founder and chairman, Martin Franklin, also teamed up with billionaire Nicolas Berggruen to buy the electronic-chemical business Alent for $2.1 billion through their investment firm.

$23b	**Micron Technology gets a bid from China.** The offer is coming from Tsinghua Unigroup, the investment arm of one of China's top universities.
$15.8b	**Marathon Petroleum buys a gas processor.** A Marathon unit is acquiring MarkWest Energy Partners, which will extend its reach into Appalachia.
$7.2b	**Celgene welcomes Receptos.** The biotech acquisition builds on Celgene's experimental treatments for inflammatory bowel disease and multiple sclerosis.
$2.4b	**WPX Energy enters the Permian Basin.** The company is buying RKI Exploration & Production, which has leases in Texas and New Mexico, to expand production fivefold.
$1.9b	**Digital Realty Trust doubles its footprint.** The real estate investment trust specializing in technology-related properties is buying Telx to add data centers.
$1.9b	**Black Hills acquires SourceGas Holdings.** Adding the natural gas distributor will boost the diversified energy company's South Dakota customer base.
$951m	**BorgWarner adds auto parts maker.** The manufacturer of turbochargers and transmissions will buy Remy International, adding starters and hybrid motors.

#MADEIN

BY SHEELAH KOLHATKAR

PHOTOGRAPH BY SIMONE LUECK

AMERICA

LYNN TILTON FIGHTS TO SAVE STRUGGLING COMPANIES. SO WHY HAS THE SEC ACCUSED HER OF FRAUD?

Lynn Tilton was rushing to get dressed at her home in Paradise Valley, Ariz., when she got a tip that the Securities and Exchange Commission was about to charge her with fraud. Taking in the news, she froze for a moment, then grabbed her laptop. It happened to be March 16, the 35th anniversary of her father's death, a devastating event that occurred when Tilton was 19. She took the timing as an omen.

For more than five years, Tilton had known that the SEC was investigating her and her company, Patriarch Partners, a private equity firm based in New York. Months earlier, settlement negotiations had broken down. In typical SEC fashion, the agency hadn't communicated its intentions afterward. Now that Tilton knew they planned to proceed against her, she decided to go to war.

Two weeks later, when the SEC formally announced its administrative action accusing her of defrauding investors in three funds that Patriarch operates, she was ready with a pretaped television interview denying the charges. Two days after that, on April 1, she filed a countersuit in federal court. "So that's why, if you remember it, it goes from 'Lynn Tilton Sued' to 'Lynn Tilton Fights Back' to 'Lynn Tilton Sues the SEC,' " she says, beaming. "That was not at all by accident."

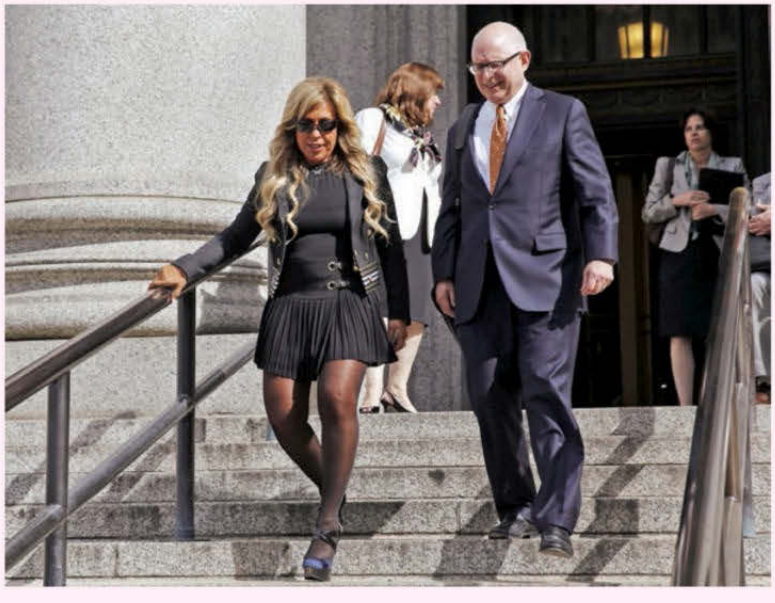
Tilton pioneered a form of financial engineering that allowed her to bundle loans to deeply troubled companies and turn them into securities, get them investment-grade ratings, and then sell them to investors. Using this method, she built Patriarch into a colossus that manages billions of dollars in loan investments. She's also come to own 74 companies outright, including MD Helicopters, Dura Automotive Systems, and Stila Cosmetics, as well as paper mills and copper forges, many of them acquired in bankruptcy or close to collapse. Tilton says it's her purpose in life to take a long-term view and save the companies she buys, preserving manufacturing jobs across America rather than breaking companies up and selling them off to make a quick buck–the anti-Gordon Gekko. Her companies generate $8 billion in annual revenue, according to Tilton. "We've saved 700,000 jobs in this country," she says. "No one will ever take that from me."

The SEC says she defrauded investors in three collateralized loan obligation (CLO) funds called Zohar I, II, and III by reporting the loans the funds held as "performing" to her investors when the companies were struggling to pay what they owed and perhaps should have been in default or even liquidated. In the process, the SEC contends, Patriarch retained control of the companies and collected $200 million in management fees that it shouldn't have. "Tilton violated her fiduciary duty to her clients when she exercised subjective discretion over valuation levels, creating a major conflict of interest that was never disclosed to them," said the SEC's head of enforcement, Andrew Ceresney.

In her suit against the SEC, Tilton accused the agency of violating her constitutional rights by bringing its case within its in-house administrative law system. The 2010 Dodd-Frank financial reform act grants the SEC greater flexibility to file cases through its internal system, as opposed to federal court. Tilton and others argue that this grants the agency an unfair advantage. It gives her limited discovery and only four months to prepare a defense. It also forces her to have her case heard by an internal SEC judge. (A federal judge took the SEC's side, dismissing Tilton's suit on June 30. Tilton has appealed.)

Tilton was just getting started, electing to argue her cause with all the subtlety of Donald Trump running for president. She launched a social media campaign unprecedented in the history of financial regulation. Part straight business public relations ("I am a girl who loves mills & manufacturing. We are the proud makers of things. So proud of the men of Gorham Tissue") and part daily aphorisms ("The beauty of butterflies like the power of poetry touch our hearts and capture our imaginations #Beautyeverlasting"), Tilton's 140-character streams of consciousness radiate from Twitter at all hours of the day. She created a glossary of hashtags to highlight her struggle –#SheForAll, #FightForTruth, #JusticeForLynn, etc.–and invited workers at Patriarch-owned companies to express their support. Her Instagram account features soft-focus pictures of her in studded leather, 6-inch stilettos, and backless ballgowns, sometimes posing at factories she owns, interspersed with images of butterflies. It's all intended to point up her role as a spiritualist and savior of American manufacturing. "I purchase and lend to companies that would have otherwise been destroyed or liquidated and had absolutely no access to capital," reads one of the captions. "She For All."

Tilton's savvy for making distressed-debt investments has made her a very wealthy woman, while also, she argues, helping to protect American families from financial ruin. If you take her at her word, the SEC's case against Patriarch appears ironic: The agency, in her view, is accusing her of putting the interests of the companies she invests in ahead of the financial interests of the same investors whose money she's using to support the companies. She says she cares too much about the fate of her companies to let them die. But what the SEC may be saying is that Tilton enriches herself first, while wrapping herself in the flag.



TILTON LEAVING FEDERAL COURT IN MANHATTAN IN MAY

"YOU EITHER STAY OR YOU GO. MANY WOMEN WENT. I STAYED"

"I have long felt that who I am and what I do is really misunderstood," she says. "I am about making life better for other people. Yes, it's a business, and I have borrowed money from people. But I work 20 hours a day, seven days a week, in the interest of repaying and being responsible to all my constituents. That is not an exaggeration." She pauses to smooth her hair down over her shoulders. "The biggest issue for me is, how do I protect my companies and my people during this battle? And how do I defend my reputation during a period where people just believe headlines and don't wait for results?"

Sitting in her office in Lower Manhattan, dripping in diamonds and sporting a deep tan, Tilton explains that none of this was supposed to happen. She is flanked by her lawyer, a crisis PR expert, and an assistant who silently places two phones and a beverage on the table in front of her. The room itself is a shrine to Tilton, decorated with pictures of her and showcasing her companies' products. Before she started Patriarch in 2000, she says in a honeyed tone, she'd been planning on retiring and becoming "an island girl," moving someplace quiet and beachy with her teenage daughter, Carly. But then a jolt of inspiration came to her, and she realized her life was meant to be about something more than making deals.

A Jersey girl with an undergraduate degree from Yale and an MBA from Columbia, Tilton had spent 19 years working on Wall Street, initially as an investment banker at Morgan Stanley and Goldman Sachs, and later as a specialist trading distressed-company loans. In 1993 she joined Amroc Investments, a boutique investment firm co-founded by the brother-sister investing team Marc Lasry and Sonia Gardner. Tilton was a senior saleswoman with a handful of customers who paid lavishly for her ideas. "She's brilliant," says a former client who asked not to be named because his employer doesn't permit him to comment publicly. "Like, extraordinarily intelligent. She knows how to make money."

At the same time, Tilton developed a reputation for being difficult to work with, albeit not in the way that's typical for professional women tagged with the label. She had come into her prime during the age of strippers on trading floors and the "boom-boom room," when many Wall Street firms operated like high-testosterone mosh pits. Any woman who wanted to make it there had to adapt, which Tilton did, but on her own terms. "There was no sexual harassment training—it was a male industry and very few women," Tilton says. "You either stay or you go. Many women went. I stayed."

While most women at major banks chopped off their hair and loaded up on boxy suits, Tilton cultivated a flamboyant, hypersexual persona, a dominatrix with a calculator. While her look invites some unwanted attention—"I can live with the judgment," she says—it's clearly by design. "I think part of the reason women do not get where they should be in male worlds," Tilton says in a gravelly voice, "is because they stop acting like women and try to be more like men."

Stories of her antics—squeezing the derrières of male colleagues, coming up behind them and sticking her tongue in their ears—are legendary. At a dinner in Chicago celebrating a particularly successful deal many years back, Tilton grabbed a male client and kissed him, according to a person who was there. The client was so shaken that he complained to Tilton's bosses the next day. Tilton says she doesn't recall the incident, although she recounts many of them herself. "You understand that it's all part of the game," she says, speaking in general terms. "I was attractive, and that drew men to me, and as long as it didn't get in the way of me being able to be successful using my intellect and my talent, then I didn't let it bother me."

Eventually, some things did bother her. In 1991 she sued Merrill Lynch, her employer then, for sexual harassment and discrimination, alleging the firm had refused to pay her what she was owed. (Merrill denied the charges, and the case was settled right before going to trial.)

Amroc, with Gardner at the helm, was known as a relatively benign environment for women. "We were just like one big, dysfunctional family," as Amy Siskind, a former saleswoman there, puts it. But even at Amroc, Tilton seemed to be reacting to misogyny in the industry when, in 1998, she came up with the idea for the Christmas Card.

Do not Google "Lynn Tilton" and "Christmas card" at the office. If you do, two images will appear: On one side, thirtysomething Tilton stands in black satin panties, bra, and knee-high boots, holding a whip. On the other, she straddles a step stool in a red lace teddy, cowboy boots, and a Santa hat. "I had been working with very few accounts," Tilton says. "They were all very close friends, and because most of sales is on the phone, I would get asked all the time, 'What are you wearing today? What color is your underwear?' And it didn't offend me. It was part of the interaction of what I did." She pauses for a calculated toss of her hair. She had saved a bunch of money, she says, and planned to retire. "My joke to them was, on my way out, I showed them the color of my underwear."

"My mother told me I would regret it," she says, sighing. "And I hate when my mother is right."

With that parting gift, Tilton moved on from Amroc. The Caribbean was calling. But three of her biggest accounts, Elliott Associates, Nomura, and Cerberus Capital, urged her to start her own bank loan trading company so she could continue making money for them. At the same time, Tilton says, she had her epiphany about doing more for others. "If I could prove that making money and making the world a better place were not mutually exclusive options, maybe I could create a journey that would be an example and be followed," she says. "I think that the business world and the social world have always been seen as separate, and they don't have to be."

In 1998, Tilton founded Papillon Partners. It was an entrepreneurial extension of what she'd been doing as a saleswoman. Bank loans at the time were traded through private transactions greased by personal relationships. It wasn't a liquid market. She had three hedge fund clients eager to buy whatever she had to recommend to them. All she had to do was go to banks with high-yield loan departments, find portfolios of troubled loans they were looking to get off their books, value them, and broker the sale. Her take was 1 percent of the loan amount. Patriarch grew out of Papillon, but there was a short detour.

In early 2000, one of Tilton's long-standing clients at Nomura, Dennis Dolan, hired her to run a distressed-debt proprietary trading group at the Japanese bank. Not everyone was eager to work with her; at least one male trader working for Dolan quit right after she showed up. Her plan had been to do her next big deal

SHANNON STAPLETON/REUTERS

SELECTIONS FROM WALL STREET'S MOST ENTERTAINING INSTAGRAM ACCOUNT



there, but she and Dolan left after a few months to start Patriarch.

When Tilton retells the story, she usually doesn't mention Dolan, but according to people who worked with them, he was an equal partner, the "patriarch" in Patriarch. Dolan had been enormously successful at Nomura in the late 1990s, having made well-timed investments in Internet bubble highfliers such as Global Crossing. His departure was a blow to Nomura.

Tilton says her work researching individual investments for clients made her realize she wanted to be the investor rather than the middleman, someone with more operational control of the companies she was lending to. Typically, there was a spread between the bid and ask prices on the loans she traded: Banks had to keep capital on their balance sheets to offset distressed loans, which made it expensive for them to hold on to the loans while the underlying companies tried to get their businesses back on track. Investors wanted to be compensated for taking on the risk of the loans while the companies were nursed back to health (or not). Tilton figured she could create a model where she acquired an entire portfolio of loans from a bank and restructured them herself, effectively making the spread, while continuing to benefit as the companies improved.

The first deal she and Dolan did was based on that model, and it made Tilton rich. They acquired a portfolio of 92 troubled commercial loans from FleetBoston Financial, paying the bank about $1 billion for a $1.5 billion face amount of debt. "Fleet's thinking, 'By selling at a 30 percent discount, I now get everyone off my back,'" was how one portfolio manager, Lanny Thorndike, described the bank's strategy to the *New York Times*. The *Wall Street Journal* called it a "landmark deal."

Next, Tilton and Dolan had to figure out how to turn the loans into securities—something that would look familiar and could be marketed to investors. "Lo and behold, this was the beginning of the CDO market," Tilton says. Bankers at Canadian Imperial Bank of Commerce (CIBC) helped Patriarch package the debt into a CLO called Ark. It was the first time that someone had collateralized bank loans of such low quality and turned them into investment-grade securities based on the anticipated cash flows of all of the portfolio of companies over time. Collateralized debt obligation- and CLO-type models had been used to package higher-quality loans whose performance was easier to predict, but not those of companies in severe financial distress making erratic payments.

Tilton put her entire $10 million nest egg into Patriarch to fund its first deal. She purchased the equity for next to nothing, which meant she would be repaid after the banks and other investors, but could benefit enormously if the companies did well.

"MY MOTHER TOLD ME I WOULD REGRET IT. I HATE WHEN MY MOTHER IS RIGHT"

In January 2002, Tilton patented the structure she used in Ark I and quickly followed up with Ark II, a similar deal Patriarch completed in October 2001 involving 52 company loans acquired from CIBC. Ark I had been so fruitful that Tilton put $20 million into Ark II, drawn partly from her profit on the first deal. Because it was right after the Sept. 11 terrorist attacks, the loans she and Dolan acquired came at an even bigger discount than they had in Ark I. The economy recovered quickly, and many of the companies paid off their loans ahead of schedule.

Patriarch served as the collateral manager, choosing the loans that went into the CLOs, and took a 1 percent management fee. Tilton made significant returns on her equity holdings in the deals when the companies turned profitable or were sold. They "were probably the most successful CLOs ever done," she says. As she saw it, she was now in a position to put into practice her philosophy of trying to change the world.

"My father raised us all to give back and to believe that our lives would be defined not by what we gave to ourselves, but what we gave to others, and this was the moment where I could honor my father's values," Tilton says. "I could invest in things and restructure, revive companies and people's lives."

In 2002, just when all this was coming together, Dolan suddenly walked away. Tilton says that she and Dolan were "good friends" and that she was sorry to see him go. "He was the wind beneath my

COURTESY LYNN TILTON (5)

wings," she says. "He was the one who encouraged me to do this." Dolan didn't respond to requests for comment.

Tilton was left with the empire to herself. She embarked on the painful process of wresting control of the companies, enterprises that had been "left for dead," as she puts it—textile companies, paper mills, firetruck manufacturer American LaFrance—either as a debtholder or by acquiring an ownership stake through the stock. Once she had ownership, she started to tinker, hoping to rehabilitate or reinvent the businesses. She appointed herself chief executive officer of some and hired managers to run others. Often they were companies that had been badly outpaced by technological change.

Many of the people who worked at Patriarch to improve the companies in its portfolio had the satisfaction of knowing they were helping to keep businesses open, and in the U.S., a rare form of capitalist noblesse oblige. But while Tilton engendered fierce loyalty in many employees and partners, she chewed through others, creating a lengthy docket of litigation. A lawsuit filed in 2010 against Patriarch by Andrzej Wrobel, a former executive managing a group of technology companies owned by Patriarch, accused Tilton of violating his contract and firing him to avoid paying him bonuses he said he was owed. Patriarch said he'd been dismissed after abusing his expense account. In one complaint he filed, he accused Tilton of "conducting a work atmosphere so filled with sexual innuendos and a river of vulgarities as to create needless job stress, tension, emotional distress, and humiliation on the part of the employees in her presence." He also accused her of intentionally wearing skirts so short that people got an eyeful during business meetings. (Wrobel's descriptions of Tilton's behavior were ultimately stricken from the court docket in the case for being irrelevant, and his claims of breach of contract were dismissed.)

"Am I a soft rose petal falling from the vine? Absolutely I am tough," Tilton says, adding that she and Wrobel hardly crossed paths. "I am not going to tell you that I am easy to work for. But in general, people who work for me know that I would walk through fire for them."

There are also lawsuits involving business partners, including financial-products insurer MBIA, which sued Patriarch for breach of contract in 2009 over obligations relating to Zohar I. As with many of the other lawsuits, Tilton prevailed in the MBIA case. The federal district judge's opinion, issued in 2013, granted Tilton total victory and described her as "vigorous, authoritative, informed, and almost entirely supported by documentary evidence."

The three deals at the center of the SEC's lawsuit were based on the success of the Arks, but with a few changes. Instead of buying bundles of loans and using them to gain control of companies, Patriarch started buying companies outright and providing all the financing needs to those companies. The debt holdings were securitized into CLOs in three funds while Tilton often bought up the equity herself. She called the funds Zohar, the name of the chief text of the Jewish kabbalah.

Zohar I, created in 2003, began as an agreement with MBIA, which had insured a group of CDOs that were performing well below expectations. In an arrangement with Patriarch outlined later in court documents, MBIA struck a deal allowing Patriarch to become the manager of the CDOs, with the goal of bringing the investments back to health. Tilton sold herself and her company to MBIA by arguing that she had the expertise to "bring value" to the investments, according to the same documents. After the transaction was done, Patriarch issued a new set of notes, worth about $532 million, with a maturity date of November 2015. Zohar II and Zohar III, each with $1 billion of notes sold to outside investors, were created in 2005 and 2007, with maturity dates of January 2017 and April 2019. In all of the Zohars, Patriarch has control over which assets are in the fund, how those assets are managed, and whether they're considered to be performing or if they're in default, with little requirement that Tilton share the details with her investors. Investors in II and III can find out which companies are being lent to only if they sign a nondisclosure agreement, although they receive reports showing their loan amounts and payments. In exchange, investors receive a quarterly sum representing the aggregate interest payments of all the companies in the portfolio, and they benefit as the companies recover.

When the financial crisis arrived, many of the companies in the portfolios went into a tailspin. Tilton acknowledges they've performed far worse than she'd hoped. She says she needs more time to turn them around and that having them succeed is for the benefit of everyone involved, including her investors. "Everything I've done is disclosed," she says. "The company, the loan, exactly what the rate of interest is, how much they got paid, and their categories are all disclosed. Anyone could look at it. So I don't even know where [the SEC is] coming from. I really don't."

Tilton says she's heard few complaints from her investors, and when she does hear from them she simply points them to the deal documents, which she says grant her license to exercise her discretion. At least one hedge fund, Kawa Capital, a holder of notes in Zohar III, sent a six-page letter to Patriarch in December 2014 outlining concerns that echo some of what the SEC said in its case, however. The letter argued that the ratings agencies had recently stopped rating Zohar III because Patriarch wasn't giving them enough information, which was a violation of its obligations, and it complained about Patriarch's lack of transparency. If there was a default, the letter argued, Patriarch wouldn't be eligible for some of the fees it was collecting, but there was no way for anyone to know if it had happened. Investors, Kawa said, were considering their options. Shortly after, the SEC filed its case. According to two investors, they are sitting back because the SEC is doing the work for them.

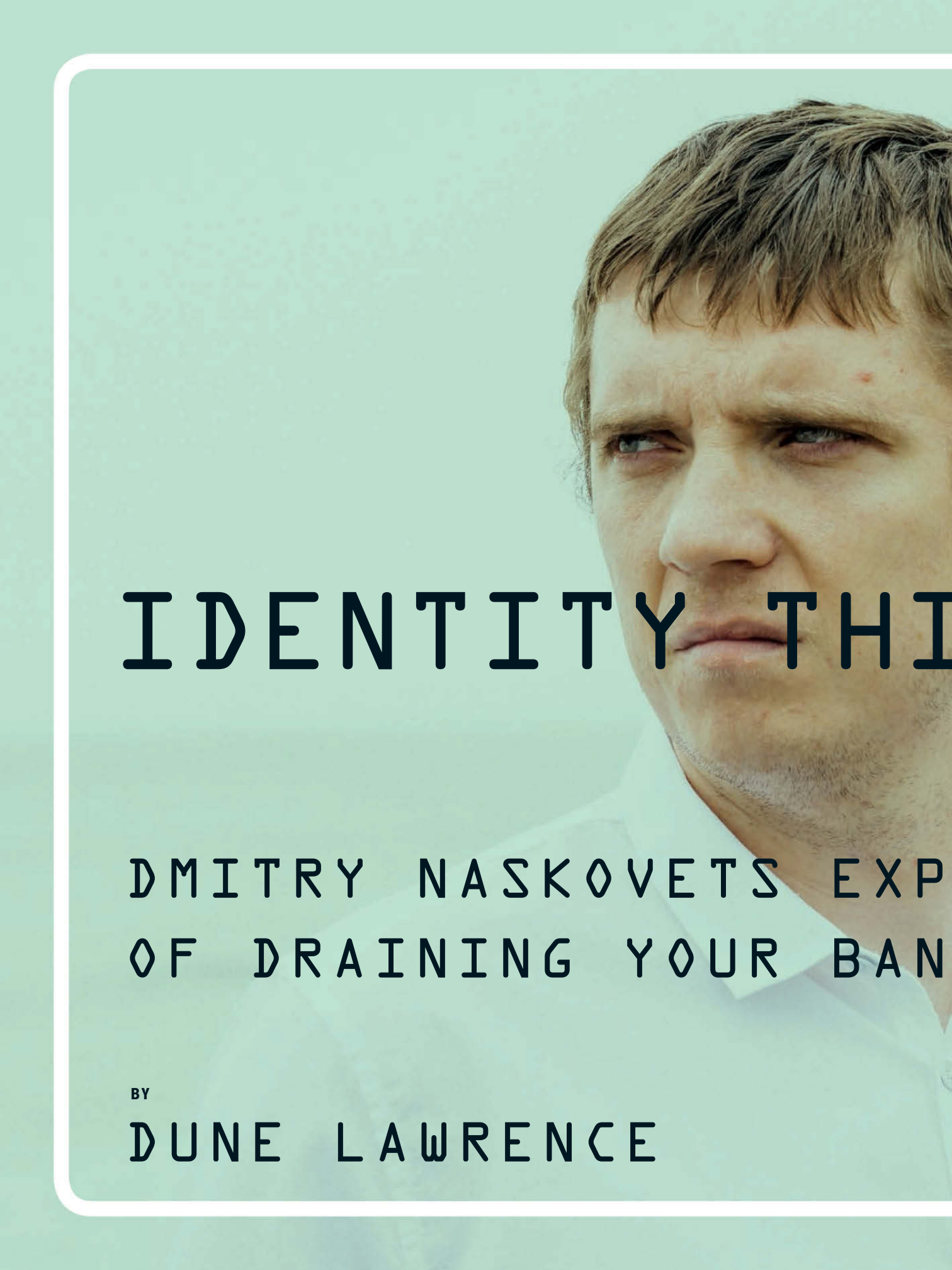
Since filing its action, the SEC has continued to contact Tilton's investors, including large institutions such as Goldman Sachs, Lloyds Bank, and Wells Fargo, as well as a handful of hedge funds including Värde Partners, Panning Capital Management, and Guggenheim Partners. The SEC's move prompted some Zohar investors to wonder if they should be more proactive about their interests. The law firm Berg & Androphy filed a summons with notice on the heels of the SEC case indicating that it intends to file its own lawsuit on behalf of two Zohar investors, Norddeutsche Landesbank Girozentrale, a German bank, and Hannover Funding. Some of Zohar's hedge fund investors have consulted with another law firm and are considering their own legal options.

Since April, Tilton has logged thousands of air miles visiting all her companies and putting on a brave face. "Leadership is a lonely role," she says in her Manhattan office. "Nobody prepares you for the battle, nobody prepares you for the pain of decisions, nobody prepares you for the litigation. I never ventured into this thinking that most of my life would be about that."

Tilton stands up and runs a hand over some of the products she's helped redesign for her companies—"her babies." There's a tray of kitchen implements with butterfly-print handles; a sewing machine that interfaces with a tablet PC; a line of hair-care products created with stylist Ken Pavés called You Are Beautiful, destined for Wal-Mart.

She's still fighting to get her case moved into federal court. In the meantime, she has an October trial date with the SEC to prepare for.

"When this is all over, I hope that my dream to be an island girl will come true," she says with a sigh. "The problem is I don't look as good in a thong bikini as I did 15 years ago." B



IDENTITY THI

DMITRY NASKOVETS EXP
OF DRAINING YOUR BAN

BY

DUNE LAWRENCE



IEF FOR HIRE

LAINS THE ART
K ACCOUNT

PHOTOGRAPHS BY

BRYAN DERBALLA

Nightfall in Minsk means Dmitry Naskovets begins working the phone. Naskovets, at 24, is tall and skinny and still looks like the college kid he recently was. He's in his apartment's kitchen, in a respectable neighborhood off the second ring road in the capital of Belarus. He starts around 6 p.m. and usually doesn't quit until three the next morning.

On this particular winter night in 2009, Naskovets checks the online orders that have come in and sees a routine assignment. A client has tried to buy a MacBook Pro online with a stolen credit card, but American Express blocked the purchase. Now it's Naskovets's job to work it out with Amex.

He calls the toll-free number, using software that makes it look as if he's dialing from the U.S. Any information the customer rep might ask for, Naskovets's client sends him instantly by chat. The questions don't usually get beyond the cardholder's date of birth, Social Security number, or mother's maiden name, but the woman fielding this call is unusually thorough. She notices that the phone number on the account has changed recently, triggering extra security. She puts Naskovets on hold while a colleague dials the old number and gets the actual cardholder on the line.

Thus begins an absurd contest: Naskovets against the man he's impersonating. The agents throw out questions to distinguish the fake. When did you buy your home? What color was the car you bought in 2004? Each time Amex puts him on hold, he knows the legitimate cardholder is being asked the same question. At last, the rep thanks him, apologizes, and approves the purchase. Naskovets was even better than the real thing. (Amex declined to comment on the incident.)

Telling the anecdote years later, Naskovets is still amazed that Amex got it wrong. And he has a certain sympathy for the victim, who had to dredge up details from memory, while Naskovets just read off a screen. "This guy has his credit stolen from him in front of his eyes," he says.

From 2007 to 2010, Naskovets was an identity thief–the voice on the phone that explained questionable purchases to banks and gave final approval for fraudulent wire transfers. He didn't convince every agent; about a third of the time, the scam didn't work, he says. Hang up, move on. But he was successful enough to smooth the way for more than 5,000 instances of fraud, according to the U.S. Department of Justice.

The prefix "cyber-" evokes technological sophistication, yet cybercrime depends on legions of old-fashioned crooks. They're foot soldiers with no particular computer skills who play the part of customers over the phone or cash out compromised accounts and send laundered money to superiors in Eastern Europe or elsewhere. As data theft has exploded, with hackers vacuuming up hundreds of millions of credit card and bank account records in recent years, so has this service sector.

"I understand it's bad," Naskovets says. "But in the beginning, when you're sitting in Belarus, and you're very young and you need money…," he trails off. "You don't see blood, you don't see crying people in front of you. You're just pushing the button."

NASKOVETS GREW UP in Borisov, a small city an hour northeast of Minsk, raised by his grandmother and his mother, a nurse. He attended a public school with an intensive English program, with lessons six times a week from age 6 to 15, including classes in literature and translation, then studied finance in college. At 22, he was working for a Minsk car dealership when he ran into a former classmate named Sergey Semashko on the subway. He mentioned a job opportunity for someone with excellent English.

A few days later, Naskovets visited Semashko, whom he'd never known to be wealthy, in a mysteriously high-end apartment in one of Minsk's better neighborhoods. Semashko left the details of the job vague. Get a headset and a Skype account, he told Naskovets, handing him $500–more than Naskovets earned in a month.

Whatever this new chance might be, Naskovets had reasons beyond greed for jumping at it. Selling cars wasn't the career he'd planned. When he graduated in 2004, he'd gotten a job at a state-owned bank. But after joining a demonstration that criticized President Aleksandr Lukashenko, he was detained by Belarusian security agents. (They're known by the initials KGB, as in the former Soviet Union.) The agents wanted him to snitch on his fellow demonstrators, he says. He refused. The KGB persisted. When Naskovets stopped answering his personal phone, agents called him at the bank, and the bank didn't renew his contract. Finding a job became difficult. The KGB kept up its pursuit, detained him again, and then pressured the adhesive tape factory where he'd found work to fire him, he says.

It was late 2006, and as Naskovets struggled, a golden age of cybercrime was under way. TJX Cos., the owner of T.J. Maxx and Marshalls stores, would shortly discover that hackers had made off with credit card data for 46 million customers–one of the first corporate megabreaches. Within a year, the Zeus Trojan, a piece of malware designed for bank robbery, would infect tens of thousands of computers. The new efficiency in harvesting stolen data created a bonanza of opportunities in the black market. This was the world Naskovets entered.

IF A BANK EMPLO

He set up an e-mail account, f.sinatra54@gmail.com, and began to get messages from strangers via Semashko. At first, they wanted him to check a credit card balance or change the billing address on an account. The requests quickly became more obviously illegal–impersonating bank customers and getting bogus wire transfers approved. To Naskovets, it felt almost like a game. "It's crazy and every day something new," he says. "You can do it from your kitchen in your underwear with a beer."

By mid-2007, his business was thriving. Customers typically reached him via an order form on the website he and Semashko set up, CallService.biz. They advertised on CardingWorld.cc and other forums popular with data thieves.

His hacker partners did the complex computer work of stealing account data, logins, and passwords; Social Security numbers; and security questions and answers. They would then initiate fraudulent transfers or purchase expensive, easily resold items such as watches or Apple computers. With his conversational English, Naskovets provided the final piece, getting around the toughest security measures–if an outgoing wire required verbal confirmation, say, or a card company called to make sure it was really John Smith buying that $3,000 watch on EBay.

Naskovets did as many as 30 calls a day, charging about $20 a pop or a percentage of the transaction. For most jobs, customers provided the information he needed, usually culled from credit reports. If a bank asked for ID, Naskovets knew a guy who could e-mail a PDF of a fake driver's license in seven minutes. If he didn't know the answer to a security question, or an agent got suspicious, he had a strategy: feign impatience or frustration. American financial institutions focus on customer service at the expense of security, Naskovets says. "Why are you asking me that?" he'd sputter. "I don't have time for this! I need to get this done!"

His accent wasn't much of a problem. Agents at banks followed a tight script. As long as he had all the answers right, he says, they weren't going to risk going to a supervisor over a foreign accent.

Not that there weren't hiccups. Once, when he was supposed to be someone named Thomas Jefferson, an agent pointedly asked if he knew who that was. He began to get threatening calls from bank security personnel and the FBI. "We're going to get you," they said. He'd tell them they had the wrong number.

He didn't worry too much about those calls. He didn't know

who any of his clients were, and all they knew about him was his instant message account, or so he thought.

Naskovets is cagey about how much he brought in—sometimes $400 a day, sometimes $1,000, sometimes nothing. He avoided transactions involving millions of dollars, preferring smaller stakes, less anxiety, and greater freedom. "The bigger the money, the bigger the mental tension," he says. Instead, he enjoyed himself. He could afford restaurants and nightclubs. He traveled for the first time, to Bulgaria, India, Paris, and Turkey. He married his girlfriend. "It was a good life," he says. "The most important thing was a kind of freedom from anything."

With his profits, he tried to start over outside Belarus. In 2009, Naskovets and his wife left for Prague with plans to start a pet-supply store. But his old clients kept bringing him work. "I already understood I cannot do this business all my life," he says. "It was so difficult to cancel—people are constantly messaging you."

Naskovets was at home on April 15, 2010, in a six-story apartment building near Prague's biggest park, when the power cut out. The doorbell rang; a man in a bright orange jacket with a company name on it waited outside—an electrician, Naskovets assumed. Naskovets opened the door and found a gun in his face. Shouting, the fake workman forced him to the floor, handcuffing him while more officers entered the apartment. A silent FBI agent stood watch. They put Naskovets in a chair and showed him a document. It said he could go to jail for 39 and a half years in the U.S. for conspiracy to commit wire fraud and aggravated identity theft. Then they bundled him off to Prague's Pankrác prison, wearing a zip-up Fair Isle sweater and looking like an early '60s Beatle with his floppy hair.

Belarus authorities arrested Semashko on the same day, and officials in Lithuania seized computers that hosted CallService.biz. Preet Bharara, the U.S. attorney for the Southern District of New York, trumpeted the arrests: "Dmitry Naskovets's website was essentially an online bazaar for dangerous identity thieves. ... Today, we have shut down that business and protected untold thousands of potential victims of identity theft."

Naskovets didn't know how the U.S. had found him. He suspected a former girlfriend had turned on him. Also, the indictment referenced a chat where he'd inadvertently sent personal information to a client. His first instinct was to fight the charges. He didn't cooperate when U.S. authorities attempted to interrogate him in May 2010. But his lawyer told him to accept extradition and make a deal; by mid-September he was at the Metropolitan Correctional Center in Manhattan. He pleaded guilty in 2011. In March 2012, Judge Lewis Kaplan sentenced him to 33 months, most of which he'd already served, and ordered him to pay $200.

"I want to say thank you to the American government for giving me an opportunity to clean my hands in front of justice in such a humane and civilized way," Naskovets told the judge, "for giving me the opportunity to accept responsibility for all unlawful and immoral deeds and to start a new part of my life with totally different ideas in my mind."

HE MEANT IT. After a conversation with Naskovets, you realize quickly that he's a relentless optimist. He paints his time in the U.S. correctional system as an adventure. "I get this philosophy probably from my grandmother. It's like, 'Life is good no matter what.' " He spent the biggest chunk of time in Brooklyn's Metropolitan Detention Center, working a 3-to-8 a.m. kitchen shift for 20¢ an hour and reading—the *New York Times*, Keith Richards's *Life*, and Russian novels donated to the prison library by a previous inmate, Ukrainian hacker Roman Vega. Cybercrime, Naskovets discovered, commanded respect. He got more than one business proposal from fellow inmates for work when he got out.

"You can get life for 2 kilos of cocaine, but if you're going to get some bank fraud, OK, you're going to get 18 months," he says. "And at the same time, the reputation you got, it's like, 'Oh, you are the most sophisticated.' So this is crazy."

Factoring in time served and a reduction for good behavior, Naskovets got out in September 2012. He faced a deportation order that would have sent him back to Belarus. Representing himself in immigration court, he argued that he risked torture if sent home, based on his run-ins with the KGB. As a signatory to the UN Convention Against Torture, the U.S. cannot send someone back to a country knowing he's likely to be tortured. An immigration judge sided with Naskovets. The government appealed.

Here's where Naskovets's optimism proved justified. While he was buffing floors in a county prison in Pennsylvania, his case had caught the attention of Stephen Yale-Loehr, a law professor who runs an immigration clinic at Cornell. With the help of Yale-Loehr and his students, Naskovets fought Immigration and Customs Enforcement in court for two years—and in October 2014 the agency decided to let him stay.

"YEE GOT SUSPICIOUS, NASKOVETS FEIGNED IMPATIENCE. "I DON'T HAVE TIME FOR THIS!"

I MET NASKOVETS two weeks later, at a Central Asian restaurant near Coney Island. He already had a job, doing office work for Arkady Bukh, the lawyer who'd represented him in his criminal case. He ordered fried Russian dumplings and coffee. He looked rough, dressed all in black, with unkempt hair, a deep pallor, and teeth chipped in a prison accident. He more or less matched my mental image of an Eastern European identity thief.

By February 2015, Naskovets was living in Far Rockaway, Queens. He picked me up in a friend's white Audi sedan, wearing a long black dress coat and new shoes, with new teeth and a haircut. He'd been taking an online course on the art business through Sotheby's. He'd also applied for a Discover card. "From the professional point of view, I'm analyzing how they work," he says, unimpressed. "They ask very secure, very tough questions—they think—like, 'What is your business address?' "

Naskovets and Bukh have since started their own company, CyberSec, which bills itself as "a different kind of cyber security firm." Their website touts the skills of "hackers who are now using their knowledge of computers to do good." They include Igor Klopov, who's back in Russia after serving a sentence for identity theft in the U.S., and Vladislav Horohorin, formerly known as BadB, a notorious Russian hacker who's still in jail in Massachusetts for credit card and wire fraud.

Not long after he got out of jail, Naskovets contacted the American Express security department to offer his help. "I was like, 'Because of you, I'm here. I'm good, so let me pay you back a little bit,' " he says. The company didn't take him up on the offer. B

NASKOVETS AND BUKH



A week inside 20Mission, a San Francisco hostel for tech entrepreneurs



Photographs by Ashley Gilbertson



HOTEL STARTUP

In 2012, Jered Kenna was searching for a place to live in San Francisco when a friend mentioned a 12,000-square-foot, former single-room-occupancy hotel in the city's Mission District. Kenna, an ex-marine who made millions from early investments in Bitcoin, decided to lease the building and create a place where coders and artists could live side by side, sharing resources, meals, and chores. "It looked like a war zone. I'd never seen anything like that in a developed country," says Adonis Gaitatzis, 32, one of the first residents to move in. When Gaitatzis was shown a room, "this guy threw up his arms in the air with a big smile and said, '$1,200 a month!'"

It's now commonplace for Silicon Valley entrepreneurs to turn their domiciles into startup incubators. Three years after Kenna started 20Mission, its 41 rooms are booked solid. A small room with a shared bathroom now runs $1,800 a month. Stays can last years but are typically a few months. Today every room has a door, and the front door unlocks with the tap of a smartphone. Rent is paid in cash, check, or Bitcoin. The Internet router takes up an entire closet. In the basement there's a television studio, where residents produce a weekly Web program called *Money & Tech*.

The coders are reluctant to discuss money as a motivation; it's all about innovation, they say. Yet speculating on who's in what round of funding is popular gossip. There's a distinct respect for those who have successfully "raised," yet most profess that a big payday is not their goal. "It's a total misconception that we're all pursuing some kind of VC raise," says Ben Greenberg, a software engineer in the house. "It's not about benchmarks or approval from VCs. It's about creating and doing what you want."
——*Ashley Gilbertson*



Previous page: Gaitatzis, founder of hardware company Net Ninja, with Lior Neu-ner, an app developer, doing whip-its (nitrous oxide: Go ask Alice), while some friends get to know each other better

Residents Tylor Bohlman, Seamus Calder, and Jessica Vo on the basement set of *Money & Tech*

Diana Brooks, one of the founding residents, grows vegetables on the roof



Adam Stone, a resident, shows off his Apple Watch to Neu-ner

ILLUSTRATIONS BY SIMON ABRANOWICZ

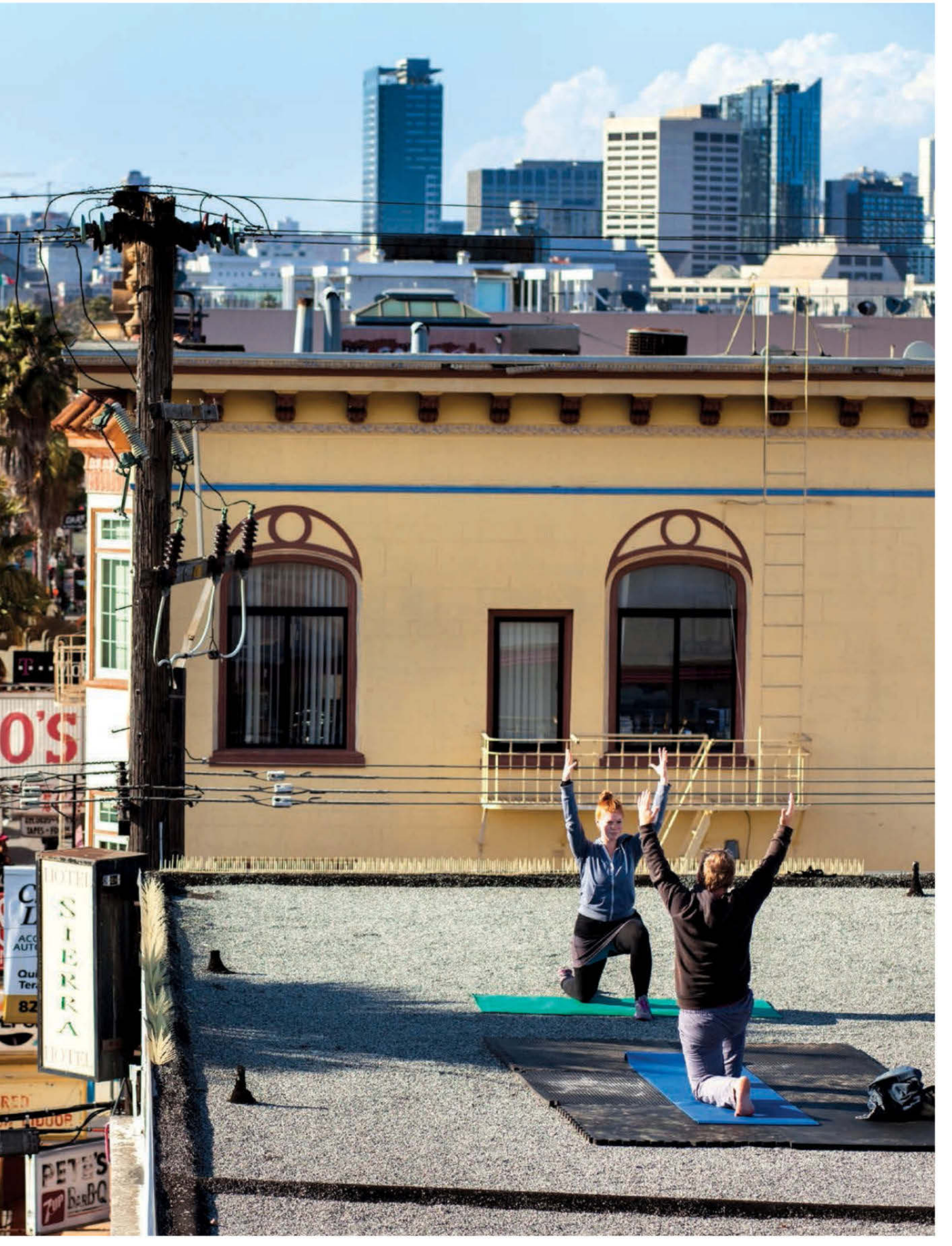

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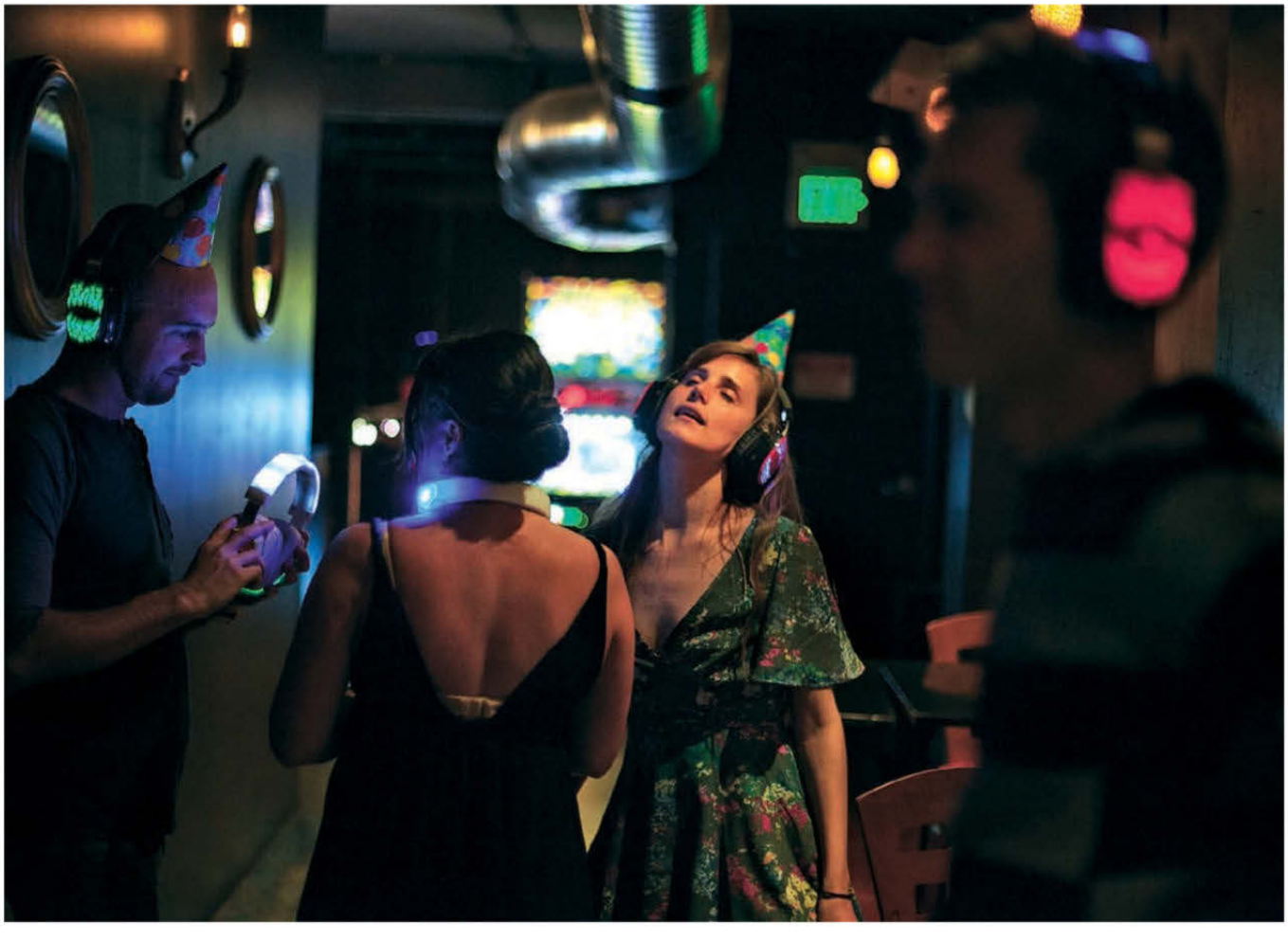


Kat Shreve, a former resident, leads a weekly yoga session on the roof




SIERRA







Top left: Gaitatzis and Andrew Ward, who co-owns Kalamuna, a branding company, initiate a new resident, dancer Brooklyn Schmitt

Ward, Brooks, and former resident Heidi Long celebrate Ward's birthday at a nearby bar

Ozzie Gooen, a programmer, mixes a batch of Soylent, a meal-replacement product



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LIL WAYNE'S REVENGE / THAT '70S BAR / NEW WAYS TO MENTOR / SLEEP ON A FARM

ETC



The Very Cheap Expensive-Looking Watch

Daniel Wellington will make about $220 million this year selling Chinese timepieces that go with everything—but look like nothing

By Stephen Pulvirent

It began, unlike many watches, with the strap. In 2006, Filip Tysander was backpacking through Australia when he met a wanderer named Daniel Wellington. This was back before everybody had a smartphone, when people still wore a watch to tell time. Wellington's stood out for its bracelet—a minimalist black-and-gray nylon band, known as a NATO strap, securing a chunky Rolex Submariner to his wrist. After a few more chance encounters with Wellington between Melbourne and Cairns, Tysander became obsessed with the military-inflected accessory. So much so that he went home to Uppsala, Sweden, and built a whole company on the idea, naming it after the stranger who inspired him.

Daniel Wellington, or DW as the company is often abbreviated, makes watches that are both instantly recognizable and so generic they verge on invisible. They come with polished-steel or rose-gold-colored cases, in five sizes from a diminutive 26-millimeter to a medium-large 40mm. The dials are all white, with slim lines marking each hour and hands just wide enough to be legible. The only thing that noticeably sets DWs apart from each other is the strap, which comes in a half-dozen colorful nylons and a few leather options, none flashy enough to mar the luxurious look. With a watch, you often pay extra for minimalism—think A. Lange & Söhne or Piaget—but DWs are cheap, running from $149 to $299.

"Our watches are inspired by the upper echelons of the watch world but at a very accessible price point," says Frans Sjo, business manager for the U.S. "It's fair to say that we want everyone to be able to own a Daniel Wellington." Four years ago, Tysander invested $15,000 to start the company. In 2014 it sold more than a million timepieces and took in $70 million. This year, Tysander projects $220 million in revenue. By comparison, Rolex, which sells $5,000-plus watches, and Tag Heuer, which focuses on $1,000 ones, consider it a good year if they sell a million units.

> "Everyone outside the States was wearing one, and it seemed so cool"

Which means that, right now at least, it's good business to sell very expensive watches—or very cheap ones. DW competes with countless other brands in the $100 to $500 sector, including the Bauhaus-style Mondaine and the more military-looking Tsovet. But, in the same way that brightly colored plastic Swatches dominated the 1980s and utilitarian Fossils took off in the '90s, Daniel Wellingtons own the current decade. "Often a designer watch whose core reason to exist is that it is fashionable this season is probably no longer viable next season," says Steve Bock, former president of Fossil and current president of Bedrock Manufacturing, the parent company of Shinola watches.



@blakescott_
318k followers



@hellofashionblog
355k followers



@notyourstandard
108k followers



@nasyamarcella
168k followers



@fabio_colloricchio
452k followers



@gypsylovinlight
453k followers



@justliv
115k followers



@onedapperstreet
229k followers

A few of the 400,000-plus pictures of the watch on Instagram

PREVIOUS PAGE: PHOTOGRAPH BY WILL ANDERSON FOR BLOOMBERG BUSINESSWEEK; PROP STYLIST: PRISCILLA JEONG; THIS PAGE: COURTESY THE SUBJECTS

Beyond getting the styling right, Tysander picked a good moment to build a watch brand. After dipping during the financial crisis, the industry has grown every year since. About 40 million analog quartz watches were sold in 2014 in the U.S. alone, up from about 33 million in 2009, according to market researcher Euromonitor. Corresponding revenue rose by an even larger rate, jumping from $3.7 billon to $5 billion. And even though the Apple Watch—which sold 1.5 million timepieces in only a week—might have looked like a deadly threat to traditional watchmakers such as Daniel Wellington, sales have since dropped as much as 90 percent, says a recent report by Slice Intelligence, an analytics firm in Palo Alto. Two-thirds of the Apple Watches sold were the cheaper $349 Sport model.

When Tysander, 30, started his company in 2009, he also was running an online necktie store with his brother and producing a line of plastic Rolex look-alikes. The Chinese factory he worked with on the watches happened to also make nylon bands, so he began thinking about what kind of face might look handsome paired with them. "I designed a thinner case and added some color to go with the preppy trend going on at the time," he says. The first Daniel Wellington was 40mm and rose-gold, and it came with one of four bright nylon straps.

In person, Tysander bears a striking resemblance to the watches he's created. He's slim, with that particular color of shockingly blond hair that seems to exist only in Sweden. On the day we met, he was in a streamlined navy suit. "One of the biggest challenges in the beginning was that it was just me, no co-founders," he says. At first, he recruited classmates from Uppsala University to help. Now his team has more than 100 people throughout five offices, in Los Angeles, New York, Stockholm, Hong Kong, and Shenzhen, China. Only recently has he started adding senior staff, including a chief executive officer, Roger Kylberg, who used to run a popular Swedish children's clothing brand.

Although DW bills itself as a Swedish company, the watches are manufactured in China, which is how the company keeps prices so low. The internal quartz movements—a battery and vibrating crystal to keep the time, essentially—come from Miyota, a Japanese supplier popular with lower-price brands, because their products are reliable and they always have a massive inventory. The rest of the components are made and assembled in Shenzhen, a manufacturing hub.

The distribution is similarly international. At first, Tysander began selling the watch online in Sweden and through local storefronts. A year later he came to New York to find American partners, and now the watches are carried in major department stores such as Bloomingdale's and Nordstrom, as well as at niche fashion boutiques including Haberdash in Chicago and Lizard Lounge in Portland, Ore. Soon after, the DW team began attending Baselworld, the industry's largest trade show, held each spring in Switzerland. Unlike other brands that aim to stay exclusive by not selling to any old shop, DW will distribute to most retailers that want its product. There are now more than 5,800 partners worldwide, in places as far-flung as Kazakhstan, the Faroe Islands, and Andorra. Tysander says he wants to expand into places such as Africa that are underserved by the watch market.

The company also has a habit of giving its product away for free, specifically to social-media stars and prominent personalities. Tysander refuses to pay for traditional advertising, instead working with thousands of bloggers, celebrities, and other "influencers" worldwide. One of them, Blake Scott, 27, has been collaborating with Daniel Wellington for a little more than a year, sharing the watches with his 318,000 Instagram followers. "I first found out about Daniel Wellington via Instagram: Everyone outside the States was wearing one, and it seemed so cool," he says. Soon after, someone from the brand reached out and said he wanted to give Scott a couple of watches to post on his feed. Eventually he negotiated a deal with the company, which paid a few hundred dollars for a multiweek campaign.

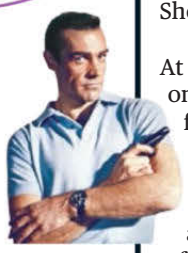
By being so blatant on social media, Daniel Wellington's Instagram account has gained more than a million followers, almost quadruple that of competitors MVMT (238,000) and Fossil (236,000). Traditionally, watch brands have avoided using social media, so Daniel Wellington has filled the void for online watch content.

But a plain watch gets boring after a while. So, in April, Tysander announced Daniel Wellington's latest style, the Dapper, its most complicated watch yet. And, at $299, its most expensive. It has black Roman numerals, instead of the typical stick markers, and a date window, a first for the brand. Instead of gold, the hands gleam metallic blue. And, in the gravest departure yet, the company suggests wearing it not with a NATO strap but a more sophisticated leather band. B

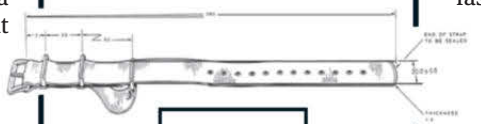
James Bond and Beyond

The history of the NATO, today's reigning watch strap

1962



Sean Connery utters, "Bond, James Bond," wearing a striped nylon band holding an early Rolex Submariner in *Dr. No*, the first Bond film.



1973

Strap guidelines appear in the British Ministry of Defence standards book, and soldiers begin wearing the G10 strap, which comes only in gray. NATO is a misnomer—the international organization was never involved.

1980s

As plastic Swatches take off, NATOs are relegated to niche Italian collectors, who go crazy for vintage ones.

2007



J.Crew starts selling a rainbow of NATOs in little plastic tubes ($20).

2010



Tudor, an offshoot of Rolex, offers its Heritage Chronograph ($4,425) on this kind of strap. It's the first luxury option, woven by hand in France.

2011

Daniel Wellington releases slim watches to match its low-profile band.





2015

Thanks to adapters like Standap, you can put a NATO on a shiny new Apple Watch. It's unwise, though: The loop on the strap blocks some of the sensors.

FROM TOP: EVERETT COLLECTION; COURTESY J.CREW (4); COURTESY TUDOR; COURTESY DANIEL WELLINGTON; COURTESY STANDAP



Menthe-Pastille, a liqueur made by a French family since 1885, has a strong, minty bite. Oleanders adds a few drops of green food coloring to the bottle to make the drink prettier.



THE GRASSHOPPER

Tiki was trending until the late ’60s, when U.S. cocktail culture was born and drinks like the Rob Roy and Harvey Wallbanger became hits. The Grasshopper was like a liquid version of an after-dinner Andes Mint. This update is less sweet, a bit herbaceous, and cooling on a warm night.

Make it at home:

- *1 oz. Giffard Menthe-Pastille*
- *1 oz. Tempus Fugit Crème de Cacao*
- *1 oz. half & half*
- *2-3 sprays Jade 1901 absinthe*
- *1 sprig fresh mint*

Overfill a coupe with ice. In a shaker, mix first three ingredients. Pour over ice. Spray absinthe. Garnish with mint.

RETURN OF THE FERN

Modern takes on the yuppie, Seventies-era cocktail spot

When bar impresario Joe Carroll opened Oleanders in June in Brooklyn, he didn’t want to copy the speakeasies and burger pubs that dot many urban neighborhoods. So he went back–way back–to the fern bar, a concept from the 1970s named for its whitewashed, plant-abundant aesthetic. The greenery was meant to appeal to professional women, who were joining the business world and going out as singles in unprecedented numbers. While meeting friends for happy hour, they sampled sweet cocktails and continental meals under the glow of Tiffany glass lamps. Men, of course, followed suit. Fern bars went out of style in the late ’80s, but now Carroll and restaurateurs in other cities are updating them for a crowd that’s too young to remember the first wave.



Henry Africa’s, opened in San Francisco in 1970 and closed in 2011, was one of the earliest successes. The Lemon Drop martini was invented there. In New York, T.G.I Friday’s was hot; the chain still relies on similar décor.

TWO MORE RETRO TAKES

Honeycut
Los Angeles

This downtown spot, hidden in an alley, hums after work with professionals downing some of the 22 craft cocktails on the menu. Later, they flock to a replica *Saturday Night Fever* dance floor that gets surprisingly crowded as the evening wears on.

The Heavy Feather
Chicago

Opened in July above a popular dive in the Logan Square neighborhood, it has parquet floors, wood paneling, and very comfy bar chairs. Try the upscale version of an Amaretto Sour, which mixes two types of whiskey with egg white and lemon.



Carroll also serves an update on **lobster thermidor** ($32) with a cognac cream sauce and Gruyère, plus clams casino and other classics.

CLOCKWISE FROM TOP. PHOTOGRAPHS BY CONNIE ZHOU FOR BLOOMBERG BUSINESSWEEK (3); LARRY TISCORNIA/SAN FRANCISCO CHRONICLE/POLARIS

Help Me Help You

Seven kind bosses on the best ways to groom junior staff
By Arianne Cohen

"I recommend partnering with a college. I worked with Fashion Institute of Design & Merchandising students in their final years, and now we recruit from there. It's been energizing."

Karen Kane
Owner, Karen Kane

"We hold constructive feedback sessions within our teams, which allows everyone to contribute. That nurtures younger employees as entrepreneurs, since they can see what's going on and ask questions about strategy."

Scott Dietzen
CEO, Pure Storage

"In my first entrepreneurial venture, we had great ideas but ran out of cash, so I love giving creatives the tools to survive. I expose our design director to all aspects of the company, encouraging her to articulate her vision in a way businesspeople can understand."

Blythe Harris
Chief creative officer, Stella & Dot

"I mentor a lot but lately am spending countless hours with my staff learning from them. It's essential to be surrounded by inspiring people who fill knowledge gaps and help the company excel."

Thomas Steinemann
Owner, DuBois & Fils

"My strategy has been to develop three or four junior team members into next-generation leaders. Through one-on-one sessions and lunches, I discuss their professional and personal dreams and share my own experiences. The only downside of being a good mentor is that your mentee may one day take your job."

Jose Costa
President, Maaco

"I always say no one ever got fired for asking for more. And you manage your boss, not the other way around. (I am going to regret this.)"

Mike Sheldon
Chief executive officer, Deutsch North America

"As a lawyer for startups, I often advise CEOs on financings, mergers, and IPOs. They range from twentysomething programmers who exist on Red Bull to 70-year-olds. I need to understand their business inside and out, so the mentorship is a two-way street."

Craig Jacoby
Partner, Cooley



ILLUSTRATION BY HUDSON CHRISTIE



Blackberry Farm

OUT TO PASTURE. TEMPORARILY

Feeding goats in Morocco, harvesting cacao in St. Lucia, luxuriating among heirloom tomatoes in Tennessee—and the rest of the best farmstay vacations. By Maridel Reyes

BLACKBERRY FARM

Walland, Tenn.

Encompassing a 9,200-acre estate in the foothills of the Great Smoky Mountains in eastern Tennessee, the farm produces artisan cheeses, beer, eggs, heirloom vegetables, and wildflower honey. There's no roughing it here: There are 68 plush rooms, plus three- and four-bedroom homes. Most accommodations include a fireplace, and all have feather bedding.

Grow some produce: Spend time with master gardener John Coykendall as he takes you through sowing, harvesting, and seed-saving techniques (from $250). You can work the fields, take the crop to the kitchen, and shell some seeds.

Drive a hog: Rent a Harley-Davidson motorcycle (from $180.45) to explore the scenic back roads of Tennessee, including the Dragon's Tail, which has more than 300 hairpin curves. *From $795 per night, all-inclusive; blackberryfarm.com*



Cacao at Boucan

BOUCAN HOTEL & RESTAURANT

St. Lucia

The 14-room lodge sits high above the rain forest in a 140-acre plantation where the owners are trying to revive the island's cacao industry. Most rooms have views of volcanic Petit Piton and sun-dappled cocoa groves.

Harvest chocolate: In the three-hour Tree to Bar experience ($61), guests tour the orchards with farmers and make candy by hand. After, eat at the hotel restaurant, where every dish, including gazpacho and snapper, is prepared with cocoa.

Just relax: Book some time at the Cocoa Juvenate spa, which uses cacao oil in massages, scrubs, wraps,

FROM TOP: COURTESY BLACKBERRY FARM; COURTESY BOUCAN HOTEL & RESTAURANT

and facials (from $66). The open-air treatment rooms face the gorgeous landscape. *From $288 per night, including breakfast; hotelchocolat.com/uk/boucan*

LIBERTY HILL FARM & INN

Rochester, Vt.

As you arrive, you get a perfect view of a working dairy farm, complete with a red barn and cows grazing in a pasture. The main farmhouse has seven country-style guest rooms, which fill up well in advance.
Help raise the animals: Depending on the season, you can feed baby calves, milk cows, or harvest vegetables. Participate in as much—or as little—as you'd like. But don't miss co-owner Beth Kennett's legendary cooking, including her blueberry cream cheese coffeecake at breakfast and carrot soufflé at dinner.
Cool off: Borrow free inner tubes and head down the road to the White River for a relaxing two-hour float. *From $126 per night, including breakfast and dinner; libertyhillfarm.com*

FELLAH HOTEL

Tassoultante, Morocco

Only 20 minutes by car from the chaos of Marrakech rests the tranquil Berber village of Tassoultante. Spread over 27 acres of cacti-covered slopes, the resort has 60 rooms, each with a view of the Atlas Mountains. It's appropriately rustic, with décor that's eco-chic-meets-Moroccan. An educational farm is on-site, and the Touco cafe serves traditional street food by the pool. Proceeds from your visit go to Dar al-Ma'mûn, a Unesco-recognized art center that benefits the community.
Do your part: Groom donkeys, feed goats, and collect eggs to be used for meals on the property.
Head into town: Drive into Marrakech's main square, and explore the old town's labyrinthine alleyways. You'll dodge snake charmers, jugglers, and belly dancers. *From $187 per night, including breakfast; fellah-hotel.com*

NORTH COUNTRY FARMS

Kauai, Hawaii

Many people think of beaches and lava-gushing volcanoes when they hear Hawaii, but the islands are also lush with agriculture. The growers of fruit, flowers, and veggies at North Country Farms offer a cottage for guests at the edge of the property overlooking the colorful grounds.
Pick some lunch: Visitors can snag produce from the market garden, including beets, carrots, cherry tomatoes, kohlrabi, lettuces, and fresh fruit such as litchi and pomelo to take back to their cottage and enjoy free of charge.
Exert yourself: Hikers should brave the famed Kalalau Trail, which hugs the NaPali Coast and offers dramatic vistas of waterfalls, 300-foot cliffs, and crashing waves before ending at Kalalau, one of the world's most pristine beaches. *From $160 per night; northcountryfarms.com*

ESTANCIA NIPEBO AIKE

El Calafate, Argentina

Gauchos on horseback still herd sheep on the family-owned Estancia Nipebo Aike, nestled in a verdant Patagonian valley ringed by the snowcapped mountains of Los Glaciares National Park.
Train livestock: Participate in cattle branding, horse dressage, and sheep shearing. Prefer to observe? Some sheep are always at the *estancia* for daily shearing demonstrations, and cowboys show off riding skills on *criollo* horses.
Caravan by stallion: Book a five-day horseback excursion ($800) to the Hidden Glaciers, and gallop through river crossings and valleys. Sleep at outposts, then dismount on the last day to enter a remote portion of Los Glaciares, where you'll gaze at giant rocks and the calming Frias Lake. *From $180 per night, all-inclusive; nibepoaike.com.ar*


Estancia Nipebo Aike

WILD THYME ECO RETREAT

Palamartsa, Bulgaria

Fly into Bucharest and rent a car to drive two and a half hours across the border to this sleepy Balkan village, where you wake up to the sound of the village shepherd taking his flock out to pasture. Guests stay in a solar-powered cabin surrounded by rolling hills dotted with ancient ruins. Freshly baked bread and homemade jam are delivered every morning.
Get your hands dirty: There are butchering workshops, or you can learn how to make the sausages served at breakfast. No slaughtering necessary.
Explore the terrain: Owner Chris Fenton-Thomas, an archaeologist, offers tours (from $23) to medieval monasteries and fortresses in northeastern Bulgaria. Nearby is Kovachevsko Kale, a late-Roman fortified town. *From $20 per person per night, including breakfast; wildthymefarm.org*


Fellah Hotel

FROM TOP: COURTESY ESTANCIA NIPEBO AIKE; COURTESY FELLAH HOTEL

FREE LIL WAYNE

The rapper's label refused to release his last record. So he made a new one himself

By Claire Suddath



Lil Wayne's new album is not the one he wanted to put out. He finished *Tha Carter V*, the most recent edition to the New Orleans rapper's *Carter* series in December, but his label, Cash Money Records, won't release it. So on July 4, the heavily tattooed, slow-rapping stuntman furnished a different album on his own. *The Free Weezy Album*, now streaming on the subscription music service Tidal, is a giant F-You to his label. It's also a message that record executives can't hold him down. Except, actually, they can. And they are.

His beef with Cash Money started in December when he tweeted that the label was keeping *Tha Carter V* back, saying things like, "I want off this label and nothing to do with these people, but unfortunately it ain't that easy." Cash Money hasn't given a reason for the delay, but the album's supposedly a 31-song monstrosity, so one assumption is that it's of uneven quality, although it may also be a pawn in business negotiations. Several earlier Lil Wayne albums were also postponed—*The Carter IV* was stalled so long (partially because of Lil Wayne's stint in prison) that he put out a mixtape. It was called *Sorry 4 the Wait*.

In January, Lil Wayne released another mixtape, *Sorry 4 the Wait 2*, and sued Cash Money for $51 million, alleging that it cheated him out of an advance for *Tha Carter V* and refused to pay some overhead costs. According to Lil Wayne's lawyers, the two sides are trying to hash out a settlement in Louisiana state courts. Cash Money did not respond to a request for comment.

Whenever you hear that Beyoncé dropped a surprise album online or Taylor Swift yanked her music off iTunes, it sounds as if the artists are the ones with the power. But they pull these moves only if their business overlords let them. "When you're signed to an exclusive recording contract, you make music for the label and no one else," says Jeffrey Rabhan, chair of New York University's Clive Davis Institute of Recorded Music. Artists who release free mixtapes or tweet out singles before they're for sale are technically in breach, but labels often look the other way, because it's free publicity. The executives still hold the rights to a finished album and decide its release date. "I don't think that's ever going to change," Rabhan says.

ARTISTS CAN PULL STUNTS ONLY IF THEIR LABELS LET THEM

With *Free Weezy*, Lil Wayne is trying to subvert that system. First, he got Wiz Khalifa and Young Jeezy—two rappers on other labels—into the studio. Then he popped the completed songs onto Tidal, which has been scrambling to keep its estimated 900,000 users from bailing when their free memberships run out and they start owing about $20 monthly. As a Tidal co-investor, Lil Wayne may eventually see some of that money. And an exclusive album by him is a big deal for the service—assuming the music is any good. Sadly, it's not. (It's also leaked on many sites, where you can listen for free.)

The album has one bright spot. The first single, *Glory*, is a blustering, angry anthem that will make even meek listeners want to punch a wall. And Lil Wayne's signature raspy croak is in fine form. But for the most part, his tricks feel tired. Take *I Feel Good*, on which he raps, "I feel good / I knew that I would / and I'm still hood" as James Brown's saxophone loops in the background. The music is catchy, but the lyrics don't add anything. It's the opposite of his 2005 Hurricane Katrina anthem, *Georgia Bush*, where he rapped, "The white people smiling like everything cool / But I know people that died in that pool," then used Ray Charles's cries for Georgia to heighten the message.

At another point he describes a postcoital nap with, "I fell asleep like Whitney." As in Houston. In general, his once-clever rhymes elude him completely. That may explain why Cash Money is holding onto *Tha Carter V* until the producers feel it's ready. "Rest in peace to the Cash Money Weezy / Gone but not forgotten," Lil Wayne says in his replacement album's second song, *He's Dead*. At least he knows when to admit it. B

PHOTO ILLUSTRATION BY 731; PHOTO: RICK KERN/GETTY IMAGES

SARAH MORSE

38, interior designer, NBBJ, Seattle



What's on your necklace?
My two children's names. It's a dainty version of dog tags.

ETSY

FAMILY HEIRLOOM

Are jumpsuits comfortable?
I wish I had one for every day of the week. It's modern. When you put it on, you instantly look hip and polished, and you only have to make one decision.

What's NBBJ?
We're an architecture and design firm. I work on interior spaces for a wide variety of buildings and companies.

MOLESKINE

Notebooks are very 1999.
Sketching, drawing, and note-taking are becoming lost arts. I like that it's all preserved in one spot.

KIMBERLY BAKER

KIMBERLY BAKER

FAMILY HEIRLOOM

What's your fashion philosophy?
I lean toward clothes that play with proportion, like pants that are cut a little short, or skirts that are a little full, or sleeves that are a little long. I refuse to suffer all day in something uncomfortable.

Do you wear those rings every day?
Yes. When you have a polished look, they add edge.

I've never heard of Totokaelo.
It's a Seattle store and website that gathers great artists and designers. It's incredibly unique.

TOTOKAELO

And you dress to match your clients?
No. If they think I'm creative, they may feel more comfortable that we're going to deliver.

You shop very locally.
There's a better chance I'll find something one-of-a-kind, and I like to support locals who excel at their craft.

What do you wear to job sites?
I always have an extra pair of boots to throw on.

FARYLROBIN

PHOTOGRAPH BY AMY HARRITY FOR BLOOMBERG BUSINESSWEEK

Interview by Arianne Cohen



JOHN CHAMBERS

Chairman and chief executive officer, Cisco Systems



In the 1950s

"I was a good student, but not in English or foreign languages, in part because of dyslexia."

Education

- Charleston High School, Charleston, W.Va., class of 1967
- West Virginia University, Morgantown, class of 1971
- West Virginia University College of Law, class of 1974
- Kelley School of Business at Indiana University, Bloomington, class of 1975



Middle row, center, with managers at Wang, 1985

"My friend asked me to interview. I said, 'Steve, I didn't go to school for nine and a half years to do sales.' I thought technology was a little geeky. He said, 'I got two tickets to the basketball game.'"



With Peter Lynch, vice chairman of Fidelity (left), and Robert Kraft, owner of the New England Patriots, 2001

Work Experience

1976–82
Sales representative; marketing manager, IBM

1983–87
Vice president for central region, U.S. operations, Wang Laboratories

1987–90
Senior vice president for U.S., Americas, and Asia-Pacific operations, Wang Laboratories

1991–95
Senior vice president for Worldwide Operations, Cisco Systems

1995–2006
President and CEO, Cisco Systems

2006–Present
CEO and chairman of the board, Cisco Systems



"Wang made mini-computers. There were 12 geographies, and only two were making money. I knew how to fix that, and 11 out of 12 were profitable within a year."

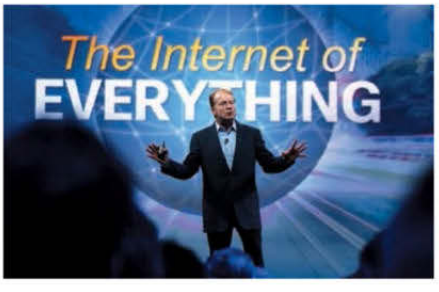
"I sent out about 100 résumés, and no offers came in. It was very humbling. So I networked."

"Cisco was a company nobody knew, with 400 people and $70 million in sales."

At a leadership retreat in Alaska, 2009



"In July I become executive chairman. I'll work half-time. Chuck [Robbins] is the CEO, and he'll make the decisions. Usually when high-tech companies transition, the next leader struggles, so we knew we had to do it differently."



Presenting to staff, 2014

"When I became CEO, sales were $1.2 billion. Today sales are about $48 billion."



Life Lessons

1. "Don't raise your voice. Expect your team to win but also to play fair." **2.** "Always compete against market transitions." **3.** "Whenever a person's out of a job, help them be successful if you can."

Courtesy subject (4), Alamy (2), Bloomberg (2)

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